JORDAN COMMERCIAL POLICY ASSESSMENT

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ASSESSING JORDAN'S COMMERCIAL POLICIES

I. EXECUTIVE SUMMARY

This report provides an examination of Jordan's commercial policies, benchmarked against those of a number of countries in the Middle Eastern region, as well as against several nations in other regions. The report's purpose is to offer Jordanian policymakers and stakeholders in both the public and private sectors an objective, honest assessment of where Jordan stands in its policy structure *vis a vis* regional and competitor countries. In this way, the nation's leaders can step back and review the Jordan's current policy stance and determine what needs to be done to enhance Jordan's competitiveness as a site for doing business.

Chapter II presents an introduction to the Commercial Policy Model developed by SRI International. This model and data base is intended to assist government officials and key stakeholders to assess their policy climates by providing guidance as to which economic policies and regulations place nations on a long-term, sustainable growth path, and how a nation's economic policy environment rates in comparison with its neighbors and competitors. SRI pioneered an innovative research methodology and has assembled a comprehensive economic policy data base.

The Commercial Policy Model has two main objectives: To equip policy-makers with a comprehensive database on commercial policies in more than 80 countries; and to provide a mechanism to objectively assess and measure host country policies, and compare these policies with those of other nations. To meet the first objective, a systematic collection of information on commercial policy regimes was undertaken. The database takes the form of a policy reform catalogue organized according to country. The emphasis is on benchmarking each country's policies against their competitors and potential models to emulate, highlighting successful policy mixes and failures where appropriate.

To meet the second objective, SRI provides a mechanism which can apply the model to country-specific situations. Under this mechanism, tailored policy audits can be conducted for countries in areas such as trade policy, investment policy, and taxation, such as has been done for Jordan. Individual country policies in nine categories can be benchmarked against a wide range of competitor countries. Based on the assessment, a tailored commercial policy reform program can be designed to improve the nation's economic performance.

Chapter III provides a brief assessment of Jordan's economic structure, "assets" and "liabilities" as an investment site, sectoral prospects, and key "drivers" likely to affect the nation's economic prospects in the future. The chapter notes that considerable credit should be given to Jordanian authorities and constituencies for the introduction of fundamental policy reforms over the past few years. However, it notes that substantial further action is needed, not only to implement new laws fully, but also to address many "bureaucratic" issues that are not directly addressed by the reforms carried out.

Jordan's economy has been buffeted by a continuing series of external shocks, most of which were well beyond the nation's control. While Jordan has successfully weathered these problems and the economy is sound, the nation has not yet experienced the sustained, broad-based development needed to overcome poverty and yield increasingly improved standards of living. Jordan's long-term economic strategy should accommodate and hopefully will take advantage of a number of domestic, regional and global realities.

Jordan will have to deal with the following -- **regional political instability and its economic consequences**, **MENA regional growth, the limited size of the Jordanian market, globalization, accession to the EU and WTO trade and investment agreements, and the increasing interest of U.S., Asian and European firms in the Jordanian economy**. The central strategic element to deal with all these is the need for Jordan to put into place the best possible set of commercial policies. Nations and regions have overcome all sorts of problems and constraints by creating systems that welcome and nurture private enterprises.

Chapter IV presents the findings of Jordan's commercial policy scoring. Overall, Jordan offers to private investors one of the most favorable commercial policy regimes in the Middle East. Jordan's policy climate also compares favorably with those of many industrialized (OECD) nations and most other countries. Jordan's import and export policies are the best in the region, while its tax and labor policies are among the most business friendly in the world.

Since the Economic Reform and Structural Adjustment Program was initiated in 1989, a number of important laws and regulatory initiatives that have markedly improved Jordan's commercial policy environment have been enacted. Several other laws and regulations have significantly liberalized Jordan's pricing, interest and foreign exchange policies, helping to integrate the country into the world economy.

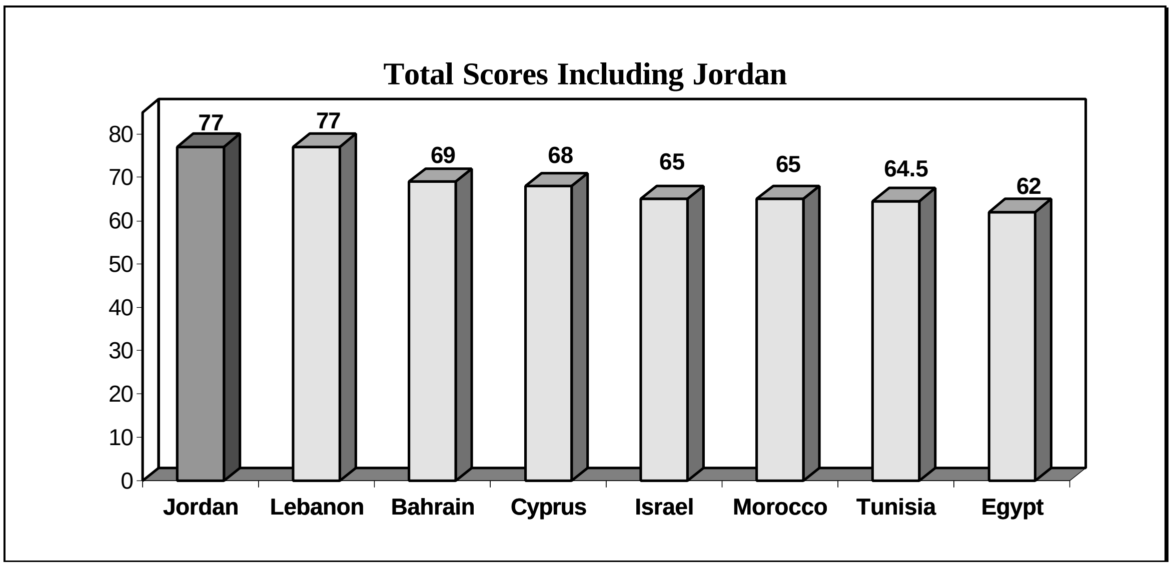
> **Jordan's overall score in the commercial policy matrix is 77 out of a possible maximum score of 100. This represents a strongly "business friendly" policy environment. Jordan scores the highest among regional nations used as benchmarks.**

Jordan achieved the highest scores in the areas of investment incentives, tax and labor policies. Jordan also scored well in import, export, (lack) of foreign investment restrictions, and pricing and interest policies. Functional areas where attention should be drawn to improve policies include business start-up procedures and the foreign exchange regime.

Chapter V compares the commercial policy scores of Jordan with those of Middle East and other countries selected by the Investment Promotion Council of Jordan and public and private sector leaders interviewed by the project team. The countries were chosen as competitors or models against which Jordan can be benchmarked in terms of "policy competitiveness."

The first section of Chapter V presents the commercial policy scores for countries located in the region, and the second section describes the scores for other selected countries. Each section displays the commercial policy scores, provides selected country examples, describes how these countries' scores compare to those of Jordan, and provides selected macroeconomic and cost data for Jordan and the other countries.

The following countries were chosen as regional benchmarks: Bahrain, Cyprus, Egypt, Israel, Lebanon, Morocco and Tunisia. The countries in this group have commercial policy scores ranging from 62 to 77 points. As one can see from the preceding chart, Jordan and Lebanon lead the group



with very strong overall scores of 77. With the exception of Lebanon, Jordan's scores are significantly higher than those of other nations in the region. Jordan scores fifteen points higher than Egypt. Egypt (62 points), Tunisia (64.5 points) and Israel (65 points) have the lowest scores among those selected for comparison.

Chapter VI offers a benchmarking of Jordan in a number of economic performance and competitiveness variables against the Middle Eastern countries selected for comparative policy scoring. Jordan performs well in many of the performance categories, but lags in many of the competitiveness measures.

Chapter VII also presents comparative indicator benchmarking, but in this case showing Jordan *vis a vis* the non-regional nations scored for commercial policy. In this benchmarking, Jordan lags behind the others in both performance and competitiveness, indicating the need for further reforms.

Jordan faces two challenges. The first is to continue on the path of economic liberalization, which includes the successful enactment of pending laws and the identification and removal of additional constraints to private enterprise development. This includes making sure that policy level changes are fully implemented at all levels of government, from Ministers to entry-level officials who administer Jordan's laws and regulations. A separate report will contain our team's assessment of these remaining areas for improvement. In view of the constraints to investment that Jordan faces but are beyond its control -- deterrents such as actual and perceived regional instability, the small size of the market, and limited production resources -- Jordan needs to offer an exceptionally "friendly" business policy climate if the nation is to attract the new productive investment it needs.

The second challenge is to make sure that all prospective investors, but foreigners in particular, are made aware of Jordan's noteworthy commercial policy environment. Jordan has for all intents and purposes been "off the radar screens" of investors seeking sites for new investments. It is therefore important for Jordan to make known the recent gains in policy climate improvements in order to position the nation in the minds of prospective investors as an attractive site to do business.

II. INTRODUCTION TO SRI'S COMMERCIAL POLICY MODEL

A. Historical Context and Objectives of the Model

As we approach the 21st century, the world is a different place than it was ten or fifteen years ago. Government intervention and statist policies have become increasingly rejected throughout the world. These policies are now being replaced by market-oriented economic policies based on competition. This rejection has been spurred by the recognition that past economic approaches which relied heavily on state intervention, government-owned enterprises, import protection, subsidies, and price controls were fundamentally incompatible with dynamic economic growth. There now exists a strong consensus in developing and developed countries alike that sound commercial policies based on market forces lead to increased capital formation, greater efficiency, and more rapid economic growth.

Amidst these monumental developments, Jordan has embarked on a restructuring of its economy to attain long-term sustainable growth through macro-economic reforms and measures to improve private sector performance. As in most parts of the world, Jordanian policy-makers have recognized the need for a sound commercial and economic policy environment which maximizes competitiveness, efficiency, and the creation of productive employment. After several years of concerted efforts to implement policy reform, it is useful to stand back from the process to evaluate the strengths and remaining weaknesses in Jordan's commercial policies.

The Commercial Policy Framework Model assists government officials and key stakeholders to assess their policy climates by providing guidance as to which economic policies and regulations place nations on a long-term, sustainable growth path, and how a nation's economic policy environment rates in comparison with its neighbors and competitors. SRI International has pioneered an innovative research methodology, and has assembled one of the largest, most comprehensive economic policy databases to date. The Commercial Policy Model has two main objectives:

t To equip policy-makers with a comprehensive database on commercial policies in more than 80 countries;

t To provide a mechanism to objectively assess and measure host country policies, and compare these policies with those of other nations.

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B. Conditions for Rapid and Sustainable Growth

Eight factors play a key role in generating rapid and sustainable economic growth:

- Political stability
- Macroeconomic stability
- Resource Endowment
- Labor Resources
- Capital resources
- Infrastructure
- Technology
- Entrepreneurship

Attaining political and macroeconomic stability are requisites to the achievement of development progress. All other variables consist of a nation's endowments of key economic inputs. These inputs are simultaneously dependent on a fundamental variable, an appropriate **commercial policy environment**. A country's commercial policy environment sets the "rules of the game" -- the regulatory and policy climate in which businesses operate. "Market friendly" policies reduce distortions in the economy, allow businesses and firms to respond to market signals, and encourage investment and development. Sound commercial policies help to reduce risks to investors, increase business confidence, and allow countries to develop their true comparative advantages.

Commercial policies affect the business operating environment at the firm level in many ways and ultimately determine how efficiently a company will use its factor endowments in the production of goods and services. For this reason, it is useful to examine how commercial policies affect the business operating environment from the perspective of an individual enterprise. Policies affect all economic processes, beginning with the initial stage of registration and approval, moving through to actual production using factor inputs, and ending with the sale distribution of goods and services foreign and domestic markets. The key question which arises is, how do commercial policies affect each stage of this cycle? The next section explores the impacts of various policies.

1. Business Start-up

The registration and approval process is a critical hurdle for businesses and entrepreneurs since it is the initial step before a business can invest in new or expanded operations. Complicated registration requirements and a lengthy approval process delay start-up operations and discourage potential investors, especially those with neither the money nor personnel to proceed through a circuitous screening process. Smaller firms are particularly likely to be dissuaded by the investment in time and money required to proceed through demanding and uncertain registration and screening process. A simpler, more automatic process that minimizes "red tape," discretion and waiting time allows investors to realize potential investment opportunities.

Registration and approval begins with business policies governing procedures for company formation and extends to other areas such as taxation requirements, permits to purchases land and construct buildings, and licenses to use natural resources or hire labor. How quickly investors receive the necessary approvals for start-up can depend largely on a country's policy environment. The arduous process of company registration and investment approval in the Ivory Coast is highlighted in the box below. Until recently in Kenya, final approval for investment projects took up to a year for clearance because investors were required to visit each of the government ministries overseeing the approval process and submit separate applications to each ministry. By contrast, Singapore and Hong Kong have centralized all decision making for investment screening and permit approval. In those countries investors can receive approval for projects in as little as 24 hours.

The regulation and approval process in Ivory Coast is so complicated and time consuming that it is considered to be serious barrier to entry for new investment. According to a recent study of the country's investment climate, there are 60-70 pre-investment procedures that must be followed before investment approval can be granted, and obtaining a priority regime permit takes an average of two years. This stands in sharp contrast to the 24 hour approval time to obtain similar clearance in countries such as Hong Kong.

2. Pricing Policy: Inputs

All businesses of every size, whether they produce for local or export markets, require a steady flow of inputs to keep the company running. One of the key policy instruments affecting the cost and availability of inputs is pricing policy. Guaranteeing an adequate flow of raw materials to industry requires pricing policies that provide adequate incentives for suppliers. Artificially low prices that do not reflect the true value of inputs can lead to a lack of sufficient production, whereas overpriced inputs represent an excess cost to be borne by industry.

3. Import Policies

An important tool for eliminating the disadvantages that industrial producers in developing countries may face in competing in the world market is guaranteed access -- at reasonable cost -- to the imported raw materials and intermediate inputs used in industrial activities that generate value added. Access in this case means that such imports are free of import and foreign exchange restrictions as well as free from excessive tariffs and indirect taxes.

Free trade status can be achieved economy-wide. As can be seen in the examples of Singapore, Hong Kong and Mauritius. In these countries all producers are subject to zero taxes or duties on imported inputs and exports. Achieving free trade status by eliminating restrictions and duties on all imports is a desirable and rational objective for many developing countries. Such an objective, while certainly a worthwhile long-term goal, can only be achieved on a gradual basis, however. This is due to a number of political and economic factors. If adopted immediately, economy-wide free trade could encourage imports to replace significant amounts of local production. Special interest opposition often prevent full and immediate removals of protection for locally-manufactured goods. In addition, immediate trade liberalization which is not fully compensated for by exchange rate adjustments can increase trade deficits.

Rather than opening their borders immediately to free trade, many developing countries establish free trade regimes for exporting while maintaining protected regimes for production in the local market during the transition period. Free trade status is often given first to exporters as first step toward the first-best solution of economy-wide free trade.

There are a number of policy instruments that can be used to ensure that exports have "free access" to inputs:

Automatic Import Licenses for raw materials, intermediate goods, and capital equipment are given to export manufacturers in Hong Kong, Singapore, Korea and Malaysia. Under these systems export manufacturers have guaranteed automatic access to imports. Exporters are automatically provided with import licenses without any discretion and with absolute minimal paperwork.

Automatic Access to Foreign Exchange. Policies are adopted in many countries allowing export manufacturers or other classes of investors automatic access to foreign exchange. Access to foreign exchange is given as a priority to exporters because they are net positive contributors to the country's foreign exchange balance to begin with. The main foreign exchange needs of export manufacturers included purchases of imported inputs, debt servicing, repatriation of capital, and remittances of dividends.

Free trade zones (FTZ) are special industrial areas located physically or administratively outside a country's customs barrier is devoted to the production of exports. Transactions in free trade zones are not subject to tariffs and therefore escape the delays and administrative costs often associated with the duty exemption or drawback systems applied to firms outside the FTZs. FTZs in Korea, Singapore, and Hong Kong were effective in the early stages of their export drives as a means of attracting foreign investors. As their outward development strategies were deepened, however, the relative importance of FTZ exports tended to decline as free trade status was gradually provided to exporters throughout the entire economy.

4. Financial Market Policies: Interest Rates

As indicated, pricing policies are essential for guaranteeing the efficient allocation of inputs used by enterprises in the production process. Similarly, interest rates, which represent the price of financial resources in the capital market, will determine the efficient allocation of capital resources. Sound interest rate policies will: (1) Provide incentives for mobilizing international and domestic capital; (2) allocate credit to enterprises which can earn the highest economic return; and (3) signal a stable and predictable financial system which encourages investment, savings and development.

The experiences of many developing countries suggest that positive real interest rates most often result from policies that allow interest rates to respond to changes in the business cycle, to adjust to fluctuations on the foreign exchange market, and to reflect the relative risk of investment opportunities. Government policies that restrict interest rate movements, impose heavy reserve requirements, or limit the market allocation of credit all combine to "repress" the financial system and reduce an investor's incentive to hold assets in domestic financial institutions. Coupled with high inflation, these practices can lead to negative real interest rates[1] which distort both investment and production decisions.

[1] Real interest rates are defined as the difference between the nominal rate of interest and inflation.

Under ideal conditions, positive real interest rates provide an incentive to hold assets in domestic financial instruments, thus creating a pool of savings which can in turn be lent to firms wishing to invest in new plant and machinery. This linkage between real interest rates, savings, and investment also affects economic growth rates. A study of thirty-three developing countries by the World Bank found that countries with positive real interest rates experienced higher annual GDP growth rates than those with moderately or strongly negative real interest rates.[2]

Policies that lead to negative real interest rates effectively break the linkages among savings, investment and growth. Investors find it more profitable to hold their resources in real assets such as land or to place them in financial institutions abroad. Over the long term, savings rates will drop, and so will the available pool of funds for domestic investment.

Interest rate manipulations also affect economic efficiency. Controlled interest rates create a bungled incentive structure that fails to match resources with the most productive investment opportunities. When the cost of money is not used to allocate credit to its most efficient uses, other less efficient techniques are use to guide resource use. One commonly used non-market technique to allocate capital in such cases is directed credit allocation programs. These programs tend to bias credit use towards larger, more prestigious, capital-intensive projects, or other kinds of projects that often to do have the highest economic payoffs to the country.

It should be noted, however, that while negative real interest rates can be a substantial deterrent to savings and financial intermediation, excessively high interest rates can often be just as problematic. Excessively high real interest rates that exceed the marginal return to capital raise the cost of borrowing and reduce the level of private investment. Some countries have tried to soften the impact of high interest rates following financial sector liberalization by phasing in reforms and maintaining moderate interest rate controls. Chile's experience with financial sector reforms is highlighted in the box below.

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[2] World Bank, World Development Report 1989, p. 30. The Bank's study found that countries with positive real interest rates attained an annual GDP growth rate of 7.3% from 1965 to 1973 and 5.6% from 1974 to 1985. Countries with strongly negative real rates of interest grew at annual rates of 4.6% and 1.9% in the respective periods.

Prior to financial liberalization in 1974, the development of Chile's capital market had been hampered by high inflation, fiscal deficits, balance of payments crises, and government intervention. Nominal interest rates, which were kept low by government regulations, soon became negative as inflation rose, and state agencies replaced financial institutions as the primary allocators of domestic credit.

Under a financial liberalization plan initiated in 1974, the government denationalized banks, lowered reserve requirements, eliminated preferential credit schemes, and allowed all financial institutions to compete freely. At the same time, the government embarked on a fiscal austerity program that reduced inflation from 600 percent in 1974 to 40.2 percent in 1978. Chile's financial reforms allowed nominal interest rates to rise faster than inflation, resulting in positive real interest rates and higher levels of savings and investment that Chile enjoyed during the late 1970s and 1980s.

Most financial indicators suggest that Chile's liberalization coincided with a period of financial deepening and economic growth. For example, the ratio of financial assets (M2) to GNP doubled between 1975 and 1982. This financial deepening was accompanied by steady increases in investment levels and GDP growth.

5. Exchange Rate Policy

A nation’s exchange rate is also an essential price that will determine the cost of imports, the competitiveness of exports, and ultimately the cost and availability of capital. Methods of determining exchange rates vary by country and are distinguished by their degree of flexibility. The most prevalent regimes are:

- Independently floating currencies, which respond directly to market forces and are characteristic of countries with developed financial markets which are fully integrated into world financial markets.

- Managed float systems, under which the central bank sets the official exchange rate and manages foreign exchange transactions on a daily basis.

- Pegged currencies systems, whereby the currency's value is tied to the value of another currency like the U.S. dollar, to a basket of foreign currencies representing the country's major trading partners, or to a composite index like the IMF's Special Drawing Right (SDR). Pegged currencies may be revalued after several months of being fixed at one rate (adjusted peg) or according to a preannounced schedule (crawling peg).

The choice of a particular regime over another is not so important as the necessity of maintaining an appropriately valued and stable real exchange rate. Studies by the World Bank have found that on average, countries with misaligned real exchange rates exhibit poorer growth performance than countries with appropriately valued ones.[3] Undervalued currencies make imported capital excessively expensive and can restrict an enterprise's ability to import essential capital inputs. Conversely, an overvalued exchange rate can lead to capital flight by making foreign financial assets relatively more attractive than domestic ones, thus encouraging investors to place their assets abroad rather than investing them in the domestic economy.

6. Foreign Investment Policy

Investment is widely recognized as a primary catalyst of long-term, broad-based sustainable economic growth, and guaranteeing a steady flow of investment funds depends critically on a supportive policy and regulatory environment. Worldwide experience in investment promotion has found that the most important features in attracting prospective investors, both foreign and domestic, are policy stability and clear "rules of the game." Key policy categories (some of which are included elsewhere in the Model) include:

- **<u>Overall macroeconomic policies and conditions</u>**: Foreign and local investors alike seek sound and stable macroeconomic policies and conditions.

- **<u>Investment operating procedures</u>**: Investors want clear "rules of the game", and prefer liberal and streamlined investment regulations. Investors prefer a transparent approval and regulatory process that guarantees that investments will be approved automatically, provided they meet the stated criteria.

- **<u>Investment incentives</u>**: Given the competitive nature of attracting investment, many countries offer financial incentives, primarily in the form of tax holidays or exemptions. Although incentives are important only at the margin, they can sometimes be the deciding factor in investors' location decisions, particularly when investors are comparing two or more otherwise similar investment sites.

- **<u>Foreign exchange controls</u>**: Foreign investors generally avoid countries with restrictive foreign exchange controls because they strongly constrain firms' abilities

[3] World Bank, <u>Exchange Rate Misalignment in Developing Countries</u>, 1988.

to compete in competitive world markets. Foreign exchange controls can prevent firms from obtaining foreign exchange for essential imports including spare parts.

- **Dividend remittances and capital repatriation**: Limiting a firm's ability to repatriate its capital or remit dividends and profits deters foreign investment and encourages practices like transfer pricing or licensing agreements that can often work to the disadvantage of host countries.

- **Expatriate personnel policies**: In the interest of promoting domestic employment, many countries restrict the use of expatriate personnel by foreign investors. To be viable, however, many firms require experienced managers and technicians who may not be available in the host country.

Examples of countries which have instituted "investor friendly" policies are outlined in the following box.

Policy	Examples of Successful Implementation
Sound and stable macroeconomic polices	Taiwan, Singapore Hong Kong and South Korea created sound investment climates only after having implemented stable macroeconomic policies.
Streamlined and transparent foreign investment approval procedures	Firms applying to invest in the Dominican Republic's export processing zones are guaranteed that a final decision will be made within forty-five days based on clearly stated criteria. Since 1989, the number of firms investing in the FTZ's has increased by 43 percent annually.
Competitive investment incentives	The East Asian NICs have maintained a relatively uniform package of tax holidays and duty drawback systems for export oriented foreign investment. These policies were especially important in attracting initial investors.
Limited foreign exchange controls	Mauritius instituted a country-wide Export Processing Zone which places no foreign exchange controls on foreign investors involved in non-traditional export activities.
Free capital repatriation	Tunisia's new investment code implemented in 1987 guaranteed foreign firms involved in export activities the right to repatriate all profits, dividends, and capital invested at market prices. Due to this and other investment liberalization measures, investment in non-traditional exports activities has increased sharply.
Unrestricted use of expatriate labor	Singapore, Hong Kong, and Mauritius do not restrict the use of expatriate labor, yet the skills base of local labor has grown exponentially.

7. Labor

As a primary factor of production, labor is particularly susceptible to government policies that in turn directly impact a firm's profitability and competitiveness. Government regulations that determine minimum wages, labor mobility, the hiring and firing of employees and the use of expatriate personnel, all of which are intended to protect workers, can in fact have counterproductive effects on industrial development and long-term job creation.

No one should argue against the societal goal to provide adequate wages for workers, particularly at the lower income levels. However, successful economies provide reasonable wages through market mechanisms rather than through government fiat.

Excessive government-imposed minimum wages can represent a major constraints to new investment. High administered wage rates discourage labor-intensive production in which many developing countries have a comparative advantage and encourage the substitution of capital for labor in industrial production. The higher the mandated wage level relative to the level that would prevail in a free market and the greater the elasticity of demand for labor, the greater the loss of employment in the short term. Over the long term, firms substitute capital-intensive methods of production for high cost labor, new investment and entry are deterred, and those seeking work migrate from rural to urban areas in search of the scarce, high-paying jobs, with consequent social problems. The net result of the high wage policy on industrial development is slower growth and fewer jobs created.

East Africa presents an interesting example of high legislated minimum wages. After independence, several East African countries (Zambia, Kenya, Uganda and Tanzania) all made conscious efforts to raise minimum wages in urban areas. During that same period (1959-1964) all of these countries actually experienced declines in nonagricultural employment. As a result they decided to abandon their high-wage minimum wage policies and turned to a market-based wage policy aimed at encouraging higher levels of employment. Although it is impossible to precisely predict the effect of wage deregulation on employment (demand for labor) firm profitability, and industrial development, Fiji's recent experience indicates that the direction of these effects is clearly towards greater efficiency and growth.

Fiji's recent experience with export-oriented manufacturing following wage deregulation provides a possible model for other labor markets constrained by excessive government regulation. Prior to the 1990s, Fiji's labor market exhibited above-market clearing minimum wages, little labor mobility, and sluggish investment in labor-intensive industries. As part of Fiji's structural adjustment plan during the 1980s, export-oriented factories were offered a 13 year tax holiday, duty-free access to capital goods and raw materials, and exemption from minimum wage decrees.[9]

Within three years of the implementation of these measures, more than 120 new, non-unionized, export-oriented industries were established, mostly in labor-intensive industries such as garments, leather goods, and furniture. Within three years, over 15,000 new jobs were created mainly in the tax free factories. The new factories provided employment to unskilled workers at a third of the minimum wage rate prevailing at the time, and to the surprise of Fiji's policymakers, a large segment of the labor force was willing to accept jobs at lower wages. The government later announced that it would refrain from issuing minimum decrees and would instead leave wage agreements to be negotiated among workers, trade unions and employers.

8. Taxation

Taxation is a key policy instrument which affects government fiscal balances and business profitability. In every country there is an important balance between raising sufficient government revenues to provide adequate public services and to maintain infrastructure and providing ample incentives to the private business to invest and obtain satisfactory returns on capital.

To the business community, high corporate taxes result in reductions in net cash flow and the profitability of investments. High corporate taxes can act as a drag on economic growth and also can provide strong inducements for tax evasion. The countries with the lowest levels of corporate taxes, including Hong Kong, Korea, Taiwan, Chile, and Mauritius, enjoyed high levels of private investment and economic growth. Experience in these and other countries suggests there is a strong link between tax levels and economic growth.

In addition to corporate income taxes there are a number of taxes which affect business profitability. These include, among others, import duties, sales taxes, value added taxes, payroll taxes, social security, capital gains taxes. There has been a general movement in many countries throughout the world towards lower, broader-based taxes. This type of tax regime provides adequate incentives for longer-term economic growth, while also being low enough to reduce incentives for evasion.

9. Export Policy

In the export area, there are a number of policy pre-conditions which need to be met in order for countries to compete internationally and rapidly increase production. Experience from successful export led-growth countries has shown that exporters need a policy environment that contains the following elements:

- **Maintenance of a competitive exchange rate**: An exchange rate system that maintains a competitive exchange rate is the single most effective export promotion instrument.

- **Access to inputs at internationally competitive prices:** Meeting this condition requires liberalized trade regimes, elimination of monopolies and price controls, and the introduction of policies which encourage domestic competition.

- **Absence of export restrictions**: This requires the absence or elimination of all restrictions on exporters including export taxes, export licensing, and quantitative controls.

- **Access to credit and other financial services at internationally competitive rates**: In general, the economy does not benefit from special below market rates of credit for exporters, but rather from policies that ensure exporters credit at internationally competitive rates adjusted for risks associated with local economic and political conditions. In many countries with tightly controlled financial markets, formal credit is unavailable at any price for non-traditional exporters. This represents a serious policy impediment to exporting.

The table below provides examples of successful implementation of export policies.

Policy	Examples of Successful Implementation
Maintenance of competitive exchange rates	Korea: Exports began their rapid growth after Korea devalued and instituted a flexible exchange regime in 1964. Between 1964 and 1968 real exports increased by five-fold.
Access to inputs at internationally competitive prices	Dominican Republic: Legislation enabling the creation of FTZs which all allow exporters to import inputs duty free and to operate in an essentially tax-free environment has led to a tripling of non-traditional exports.
Access to international markets	Indonesia: As part of a broad-based structural reform program to reduce the country's dependence on petroleum exports, Indonesia eliminated a panoply of export controls on agricultural products. As a result, exports of traditional crops increased sharply, particularly in the outer island regions.
Access to credit	Korea: A system of domestic letters of credit was created which allowed exporters and indirect exporters to obtain export credit on the basis of guaranteed export orders at low risk to the banks. This system encouraged banks to provide credit to exporters who previously had no access to credit.

C. Commercial Policy Research Methodology and Findings

1. Research Goals

Given the importance of a business-friendly commercial policy environment for private sector development, it is imperative for policymakers to identify feasible policy alternatives, and to assess their effectiveness. To this end, cross-country experiences can be utilized to examine specific policy approaches and the lessons learned from their successes and failures in enhancing economic performance. Cross-country data is also useful for conducting policy benchmarking, which is an effective technique for assessing the comparative position of a country's commercial policy regime against its competitors in attracting international investment and trade.

Although comparative assessments of economic policies have been conducted in the past, in most cases the comparison is limited to a few countries and confined to a specific policy area, such as the foreign investment policy regime. In order to assess the commercial policy practices of a large number of countries across a broad range of policy areas (such as trade, investment, tax, foreign exchange, etc.), it is necessary to identify an analytical framework within which commercial policies can be examined in a systematic and objective manner.

This section discusses the methodology developed by SRI to identify those policy practices which are conducive to private sector development and sustained economic growth. The methodology is designed to allow cross-country comparisons of overall commercial policy regimes through summary country policy scores, which describe the degree to which commercial policies are business-friendly as well as competition-based.

2. Research Methodology

<u>Data Collection and Classification</u>. To examine the commercial policy environment 36 policy variables were selected as the basis for international comparison. To the extent possible, quantifiable measurements of policy differences were utilized. The variables were selected based on the following criteria:

- Their importance in forming the overall commercial policy environment;
- The availability of up-to-date information;
- The objectivity and reliability of data sources; and
- The country coverage available.

SRI team then collected and compiled data from the World Bank, International Monetary Fund (IMF), United Nations Conference on Trade and Development (UNCTAD), Office of the U.S. Trade Representative (USTR), U.S. Department of Labor, Center for International Settlement of Investment Dispute (CISID), foreign embassies, major accounting houses, and other sources.

The policy variables analyzed were classified under nine categories:

1. Business start-up
2. Pricing\interest
3. Import
4. Export
5. Foreign exchange
6. Domestic investment
7. Foreign investment
8. Labor
9. Taxation

The policy variables were categorized so that they could be assessed as policy groups in forming the overall commercial policy environment. Such classification can also accommodate cross-country comparison in each individual policy category. See the box below for the variables included under each policy category.

<u>Data Analysis</u>. SRI designed a rating system which assigns summary policy scores to each nation. These scores describe the degree to which the commercial policy regimes are business-friendly and competition-based.

Policy Category	**Policy Variable**
Import	Mean Trade-Weighted Tariff Tariff Variance All Non-tariff Barriers
Export	Export Taxes Export Restrictions Export Income Tax Exemptions Duty Free Imports
Tax	Minimum Corporate Income Tax Rates Top Corporate Income Tax Rates Minimum Personal Income Tax Rates Top Personal Income Tax Rates Sales Taxes + Value-Added Tax Rates
Domestic Investment	Income Tax Holidays Duty Exemptions Other Incentives: Accelerated Depreciation Investment Allowance R&D Incentives
Foreign Investment	Direct Investment Restrictions Expatriate Employment Restrictions Differential Treatment between Domestic and Foreign Investment Dispute Settlement Mechanisms
Business Start-Up	Business Licensing Business Registration Approvals
Pricing & Interest	Price Controls Price System Interest Controls Credit Allocation
Foreign Exchange	Exchange Rate System Foreign Exchange Level Foreign Exchange Restrictions Profit Repatriation Restrictions Capital Repatriation Restriction
Labor	Hiring/Firing Flexibility Minimum Wage Wage Controls

Under this system, both quantitative and qualitative information is converted into a set of policy scores. For each policy variable, a numerical value -- variable score (VS) -- is assigned to a specific policy condition. For example, the variable "Mean Tariff" in the Import Policy category is assigned a VS ranging from 0 to 4, depending on the range into which the mean tariff falls:

Range	Variable Score (VS)
$0 \leq \% \leq 15$	4
$15 < \% \leq 25$	3
$25 < \% \leq 30$	2
$30 < \% \leq 40$	1
$40 < \%$	0

For variables that are not strictly quantifiable, other means of measurement are utilized. For example, duty exemptions for machinery, raw materials, and other imported inputs are an important factor in attracting investment. The variable "Duty Exemptions" is assigned a VS of "1" if duty exemptions exist, and "0" if otherwise. The scoring system is described in detail as an Appendix.

The scores of the policy variables within the same policy category were then summed and harmonized according to a conversion scale to yield Policy Category Scores (PCSs), which fall into a range of 1-4. This is to ensure that the scoring system will be not be biased towards the policy categories in which more data and information are available. The PCSs are then given weights which reflect their relative importance in forming the overall commercial policy environment (see the Appendix for the weights assigned to each policy category).

The Total Score (TS) for each country was obtained by summing the weighted scores from all the policy categories. The maximum achievable Total Score for a country is 100. Total Scores can be compared across countries as a summary description of the commercial policy environment. In addition, comparisons and benchmarking can be conducted in each policy category by comparing the Policy Category Scores across all countries or groups of countries. Perhaps more importantly, the correlation between the Total Scores, Policy Category Scores, and economic performance across countries can be observed and analyzed.

It should be noted that a country which has the most competition-based commercial policy environment will not have the perfect score of 100. This is due to the fact that for certain policy variables, higher scores are assigned to countries that have adopted special incentives specifically to encourage investment or trade, such as income tax exemptions for exporters, or income tax holidays for investors. In many countries, such special incentives are often provided to investors and exporters to counteract the restrictive commercial policies in other areas.

III. OVERVIEW OF THE JORDANIAN COMMERCIAL ENVIRONMENT

A. Jordan's Economic Structure and Prospects

Economic development in Jordan, by necessity rather than by choice, has taken a back seat to efforts to build the nation's political structure and maintain stability in the midst of continuous turmoil in the Middle East region. The nation has been strongly affected, both positively and negatively, by the political and economic fortunes of its neighbors. Bordered on virtually every side by antagonistic and often warring countries, Jordan has exerted enormous energies to steer a delicately balanced political and foreign policy course. These efforts, along with normal state building, have left very limited time or resources to design and implement a long-term economic strategy.

Notwithstanding the imperatives of political, diplomatic and military affairs, Jordan has nevertheless taken important strides to lay the groundwork for sustained economic growth. The government has taken action to achieve macroeconomic stability, and has initiated a systematic process to modernize the nation's commercial laws and policies. Jordan has since the late 1980s committed itself to reducing the role of the state in the economy, and progress has been made in this direction, although considerable additional changes are required.

Jordan's economy is relatively small by international standards, amounting to about 4.3 billion Jordanian dinars (about U.S. 5.4 billion). This is due to the limited population of about 4.4 million and the presence of only limited natural resources. In view of its size and geographic position, Jordan is highly vulnerable to economic (and political) trends and events in the region.

The structure of the economy is oriented primarily toward services activities rather than the production of goods. As can be seen on the table on the following page, about one quarter of Jordan's total output is production from goods-related activities (agriculture, mining and manufacturing). The remaining three quarters of GDP is spread among various service-related activities (including construction and electricity generation). On average, the distribution of GDP for middle-income developing countries is about one half of output in the form of goods production and one half in services. Jordan's service sector activities are about twice the average, and Jordan's production of overall goods is about one half the average of countries at similar levels of income.

Among goods-related activities, manufacturing (largely for local and regional markets) is the largest sector, accounting for 16.2 percent of GDP. This is following by agriculture (5.4 percent) and mining (3.6 percent). Within the services area, government services represent the largest activity, at 18.6 percent of GDP. Finance, transportation and trade are all significant contributors to services output, each producing between 10-20 percent of GDP.

DISTRIBUTION OF JORDAN'S GROSS DOMESTIC PRODUCT (GDP) GDP AT FACTOR COSTS, 1996, CURRENT PRICES		
Economic Activity	**Total Output (JD Millions)**	**Percentage of Total**
Goods-Related Activities	**1,075.1**	**25.2**
Agriculture[1]	232.9	5.4
Mining and Quarrying	153.6	3.6
Manufacturing	688.6	16.2
Service-Related Activities	**3,209.0**	**75.3**
Construction	341.1	8.0
Wholesale/Retail Trade[2]	480.1	11.3
Transportation Services[3]	591.8	13.9
Financial Services[4]	766.8	18.0
Electricity & Water	98.2	2.3
Other Private Services[5]	138.3	3.2
Government Services	792.7	18.6
Balancing Items[6]	-23.7	-0.5
Total GDP at Factor Cost	**4,260.4**	**100.0**

Source: ***Central Bank of Jordan***

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1 Includes agriculture, hunting, forestry and fishing.

2 Includes wholesale and retail trade, restaurants and hotels.

3 Includes transport, storage and communication.

4 Includes finance, insurance, real estate and business services.

5 Includes community, social and personal services.

6 Net result of nonprofit services to households, domestic services of households, and imputed bank service charges.

Land and Natural Resources

Jordan occupies a land mass of about 90,000 square kilometers, which offer a range of terrains. Hills and mountains span the length of the country, flanked by the Badia plains to the east and the rift valley to the west.

The nation's agricultural potential is limited by the lack of arable land. Only a small portion (5-10%) of Jordan's land is arable, and all of agriculture is dependent on irrigation. Over 90 percent of the nation's land mass is classified as either desert or semi-desert. Most of the eastern and southern regions are sparsely populated. Most agriculture is based in the northeastern highlands, extending southward from Jordan's border with Syria to around Madaba.

Lack of plentiful water resources represents a major constraint to economic development. The "highest" rainfall is found in the upland areas of central and northern Jordan. It is also here where major reservoirs, such as that created by the King Talal Dam, are located and can provide irrigation. There are major concerns regarding the long-term supply of potable water, especially in view of the rapid growth of the population. As a result, new investors encounter considerable difficulties in obtaining permits for wells or other sources of water.

Jordan is not well endowed with mineral resources, especially in comparison with its regional neighbors. The country has a limited amount of natural gas reserves in the Risha district, and the Hanza oil field near Azraq yields a small amount of production but is shallow. Jordan does possess considerable oil shale reserves, but exploitation is prohibited by current production costs relative to market prices.

Jordan's principal mineral resources are phosphates, potash and their fertilizer derivatives, which represent the country's primary minerals exports. Potash, along with other recoverable salts, are found in the Dead Sea, and raw phosphates are located in the south at Al-Hasa and principally Shidiya. While mining activities do not account for a large percentage of GDP or employment, mining output represents an important source of export income.

Labor Resources

Jordan's most significant economic "asset" is its educated work force. The population as a whole is well educated. The nation's literacy rate is 85 percent. Jordanian workers are generally highly skilled, offering specialized skills such as engineering and computer programming. About 17 percent of Jordanians receive higher education. Jordan boasts some 37,500 engineers. This skill base enhances the attractiveness of Jordan as a regional source of highly skilled labor. However, there still exists a considerable need for vocational training for lower and middle income sectors of the population.

The nation possesses a substantial educational establishment for a country of its size. Jordan possesses nine state-run universities, twelve private universities, and over 50 licensed technical and community colleges. Families show a strong preference for formal academic training for their children, either at home or abroad, which has led to an excess of professionals and a shortage of workers with mid-range technical skills. This supply/demand imbalance has contributed to the outflow of Jordanian professionals to work in other countries in the region, and the inflow of lesser skilled workers into Jordan.

Several decades ago, the government correctly acknowledged that Jordan's economic future was dependent on the development and utilization of the nation's human resource base. Accordingly, substantial investments were made in both primary and advanced education. These investments have yielded considerable returns over the years, both from domestic activities and remittances from Jordanians working abroad. Some observers have claimed that the nation's basic education infrastructure and output has recently deteriorated to a degree, largely due to budgetary constraints and lower resources available for education. Nevertheless, Jordan's educational system remains one of the most advanced in the region.

In recent years, the quality and diversity of the labor force has been enhanced by the return of many Jordanians previously working in the Gulf countries. For example, returning young Jordanians skilled in computer programming, system design and other related skills have given a boost to the domestic information technology industry.

Jordan's population growth rate, at 3.8 percent annually, is one of the highest in the world. Since about 41 percent of the population is under the age of 15, one of the major challenges facing the economy is to generate employment opportunities for new labor market entrants. The labor force is estimated at about 1.4 million workers, of which about 51 percent is employed by the private sector and about 32 percent by the public sector. Unemployment is estimated officially in the range of 15-17 percent, but a recent survey indicated that the rate could be as much as 25 percent or more.

As noted above, Jordan is dependent on inflows of foreign laborers, primarily to fill unskilled positions. It is estimated that there are over 300,000 foreign workers, mostly Egyptians, living in Jordan. While foreign labor exacerbates the countries unemployment rate and costs over $700 million per year in foreign exchange, the majority of foreign workers hold positions (e.g., manual labor) that are often spurned by Jordanians (e.g., seasonal agriculture, food preparation, construction, personal services and other service-related industries). To avoid further aggravation of the unemployment situation, the government continues to enforce strict rules and impose high permit fees to discourage foreign labor. The Ministry of Labor must still approve the hiring of foreign workers by private businesses.

Capital and Financial Resources

Jordan's financial market infrastructure is advancing in terms of both size and sophistication, but from a relatively limited base. At the end of 1996 the banking system had a network of 445 banks and branches servicing different areas of the Kingdom. Traditionally, most of the nation's ten local commercial banks have been small, with limited capital bases, and highly conservative. The banks have placed a priority on fully-secured loans which provide rapid returns and which avoid risk, especially long-term risk. The innate conservatism of banks was intensified by their rapid accumulation of non-performing loans during the recession of the 1980s. In recent years the banks have regained some degree of stability and credibility, but at the price of high requirements for collateral and a penchant for liquid assets and large interest rate spreads.

Jordan's domestic banks have tended to be locally-oriented. An exception has been the Arab Bank, which operates 64 branches abroad. However, many Jordanian banks have been opening branches in the Palestinian National Authority (PNA) territories in order to take advantage of opportunities arising from peace.

Over the past two decades a number of specialized financial institutions emerged and expanded, and now include six private investment banks, six specialized credit institutions, and four non-banking financial institutions. The public/private Industrial Development Bank actively pursues lending and equity opportunities in both large and small enterprises. Since 1992, moneychangers have been able to operate legally, but their spheres of operation have been limited. Five foreign commercial banks (Arab Land Bank, Rafidain Bank, BritishBank, the ANZ Grindlays and Citibank NA) operate in Jordan.

Jordan's stock exchange, the Amman Financial Market (AFM), has been in operation since the late 1970s. The AFM is small by international standards, but boasts some 115 listed companies, making it one of the largest bourses in the Middle East.

Geographic Position

Jordan's geographic position at the juncture of three continents has given it from the beginning of history a key "regional base" role along major trading routes. While Jordan's central position has made it subject to regional instability, this location can become a real asset to investors seeking a site for regional operations.

Jordan's western border is marked by the Jordan River, converging into to Dead Sea. The port of Aqaba at the southern tip of Jordan provides the nation access to the Red Sea. Jordan shares borders with Syria to the north, Iraq to the east, Saudi Arabia to the south, and Israel and Palestine to the west.

Tourism Resources

Jordan possesses substantial potential for tourism development, based on the country's abundant historical and archeological sites, many of which remain undeveloped. The nation's sites and antiquities encompass a considerable span of important time periods and civilizations, including the Stone Age, Greek, Nabateaean, Roman, Islamic and Crusader periods. Jordan also offers a range of climatic conditions and geographic attractions, ranging from the Red Sea coast to the desert to the mountainous uplands.

Tourism is most advanced in the Petra and Wadi Rum Jordan sites, but additional areas are being prepared to offer the potential for longer-term stays by visitors. There is considerable potential for developing longer-term tourism packages jointly with Israel, focusing on tourists interested in combined historical, religious and ecotourism experiences.

Sectoral Activities and Prospects

Most analysts agree that the strongest prospects for new or expanded commercial activities in Jordan lie in regional "entrepot" activities (in all categories), tourism, and selected mining and manufacturing activities. In addition, new opportunities will arise for infrastructure structure investments to support both local and regional growth.

Regional services offer the best prospects for new investments, especially as the peace process takes hold. Jordan is well positioned to provide trade, transportation, finance, consulting construction and telecommunications services throughout the region. The actual growth potential of these activities will depend, however, on the ability of Jordanian firms (and hopefully joint ventures) to become "international" in outlook and scale. For example, Jordan possesses considerable human resources in architecture and engineering, but local firms do not possess the scale of operations necessary to bid on and win large regional projects. Similarly, Jordan's banks need to adopt modernized systems and attitudes in order to extend their activities overseas.

Tourism faces substantial opportunities for growth. As noted above, the nation is blessed with a wide spectrum of attractions. Tourism already accounts for some 15 percent of GDP. In 1996, the number of tourists visiting Jordan amounted to over one million, representing a growth of almost 30 percent over the number of visitors in 1994. While about one half of tourist inflows came from Gulf Council countries (including expatriate Jordanians), most growth has occurred in Israeli, North American and European markets. Tourism growth has been constrained by the lack of high quality hotels, but this is being addressed by the current boom in tourism facility construction.

Manufacturing offers some potential, particularly in high value-added production activities. Most current manufacturing operations are focused on serving the domestic market, producing foodstuffs, pharmaceuticals, garments and other consumer products. The pharmaceutical industry successfully exports to regional markets. Growth in this industry will depend on a successful resolution of intellectual property rights issues. Consumer market chemicals (detergents, soaps, toiletries and other household chemicals) offer opportunities for regional export sales. The nation's highly skilled human resource base can be tapped to support the manufacturing of high technology products (electronics, telecommunications equipment, peripherals, etc.) as well as software. Reaching the nation's potential in this area will depend on the establishment of joint ventures with foreign companies, as well as the expanded use of Jordan's industrial parks and free trade zones.

While the nation's **agriculture** potential is limited by scarce water resources, Jordan does export several types of vegetables and fruits to the Gulf States and European countries. Numerous projects are now focusing on improving the irrigation system used in the Jordan Rift Valley, where about 70 percent of the nation's total production of fruits and vegetables is located.

In summary, Jordan possesses the ingredients for hosting new enterprises in a considerable range of commercial activities. While the potential scale of new ventures is limited, at least in the near term, nearly all could grow over time to supply both Jordanian and regional markets.

B. Recent Economic Performance and Major Trends in Commercial Policy

Economic Performance

Over the past decade, Jordan was buffeted first by an economic crisis and next by a political crisis, both of which generated considerable economic dislocations. Earlier, Jordan enjoyed an economic boom led by substantial inflows of remittances from Jordanians working overseas, along with high levels of official grants and concessional loans.

The boom ended in 1983, when declining oil prices reduced both remittances and aid inflows dramatically. In the late 1980s the nation faced an extended period of contraction and recession, which was further exacerbated by the impacts of the Gulf crisis of 1990/91. Consumption and per capita income declined substantially and debt levels rose precipitously. One important offsetting factor was the real estate and construction growth caused by the return of many Jordanian workers.

In view of the continuing political circumstances and constraints facing Jordan, the nation's economy is currently performing relatively well, achieving real growth of 6.9 percent in 1995 and

5.2 percent in 1996,[7] with growth in GDP expected to average about 6.0 percent over the 1996-1998 period. While gains were achieved in all sectors in 1996, the primary sources of growth were expansions in mining and quarrying, transportation and communications, resulting respectively from rising exports of minerals and progress achieved in the implementation of the National Telecommunications Program. Per capita GDP rose 6.8 percent in current prices (or 1.7 percent in constant prices) to JD 1,159 (US$1,635) in 1996.

The rate of inflation, as measured by the cost of living index, rose to 6.5 percent in 1996, up from 2.4 percent in 1995. A considerable portion of the 1996 inflation can be attributed to a restructuring of wheat and fodder subsidies, as well as to the effects of the introduction of a sales tax at the end of 1995. Overall, the country has succeeded in achieving a considerable degree of macroeconomic stability.

Economic/Commercial Policy Trends

Since the Economic Reform and Structural Adjustment Program was started in 1989, Jordan has taken impressive measures to improve its macroeconomic outlook and facilitate the performance of the private sector. Apart from meeting all of the major macroeconomic targets that Jordan carefully crafted with the aid of the International Monetary Fund, the government of Jordan has implemented a significant number of laws and regulatory initiatives with the aim of increasing the role and efficiency of private enterprises in the Jordanian economy, and integrating the country into regional and world markets.

A number of laws have been enacted that have transformed Jordan's commercial policy environment, including:

- The new Income Tax Law No. 14 of 1995, which reduced taxes on income.
- The Investment Promotion Law No. 16 of 1995, which established incentives for domestic and foreign investment.
- The General Sales Tax Law No. 6 of 1994, which decreased the government's dependency on customs duties and fees for revenue.
- The Labor Law No. 8 of 1996, which established an investor-friendly labor environment.

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[7] Growth rate data derived from statistics in ***Monthly Statistical Bulletin***, Central Bank of Jordan, Vol. 33, No. 9, September 1977.

- The Law of Unification of Taxes and Fees No. 7 of 1997, which lowered tariffs and consolidated tariffs and fees for increased transparency.

- A new Companies Law was drafted in 1997 as an amendment to the previous one, abolishing and simplifying several business licensing requirements and improving the regulatory environment for corporate governance and finance.

Several other laws and regulations have significantly liberalized Jordan's pricing, interest and foreign exchange policies, helping to integrate the country into the world economy. Moreover, impending legislative action on the Securities Law, Safeguard Law, Competition (Antitrust) Law, Companies Law, Leasing and Secured Financing Law, Customs Law, and Intellectual Property Rights Law, if enacted, will provide a modern legal framework to support commercial activities.

Considerable credit should be given to Jordanian authorities and constituencies for the introduction of fundamental policy reforms. However, substantial further action is needed, not only to implement new laws fully, but also to address many "bureaucratic" issues that are not directly addressed by the legal reforms noted above. Many decisions at the operational levels remain non-transparent and discretionary. For example, Ministers have traditionally wielded considerable discretionary powers, which could be used either to cut or add "red tape." One systemic problem has been the rapid turnover of leaders at the Ministerial level, leading to numerous cases in which a Minister would approve a given undertaking but be over-ruled by his/her successor. Much needs to be done to remove discretionary power on commercial policy matters from both lower level and higher level officials.

Upcoming Challenges, Opportunities and Requirements

Jordan's economy has been buffeted by a continuing series of external shocks, most of which were well beyond the nation's control. While Jordan has successfully weathered these problems and the economy is sound, the nation has not yet experienced the sustained, broad-based development needed to overcome poverty and yield increasingly improved standards of living. Jordan's long-term economic strategy should accommodate and hopefully take advantage of a number of domestic, regional and global realities.

Regional political instability and its economic consequences will remain key elements of the environment facing Jordan for the indefinite future. Jordan's economic prospects will continue to be affected strongly by events taking place in its neighboring countries. The appropriate strategic thrust will be for Jordan to position itself to transform its "vulnerability" into "positive interdependence." This means that Jordan will become to an increasing degree a haven -- an attractive place to conduct business within the region.

MENA regional growth offers considerable opportunities for new ventures in Jordan. Assuming the important condition of a successful continuation of the peace process, the Middle East and North Africa region is poised for long-term growth. This assertion is supported by the fact that most countries in the MENA region are actively engaged in policy reform in order to improve their economic/commercial policy climates. Jordan can succeed not only in direct bilateral commercial relations within the region, but also in offering access to the region to outside companies.

Jordan's market is limited in size. While raising incomes, especially among the poorer segments of society, will increase the country's effective market size, Jordan's relatively small population is not sufficient to attract large scale investments. The only alternative is to effectively increase Jordan's market to encompass those of neighboring countries and/or exporting activities outside the region. This strategy has been achieved highly successfully by such "small" economies as Hong Kong, Singapore and Mauritius.

Globalization is not only a catchword, but also a reality. Barriers to flows of goods, services, capital and labor are breaking down, particularly as developing countries liberalize their policy structures. Globalization represents both a threat from heightened competition and an opportunity to access new markets that have previously been protected. The only effective means for Jordan to deal with both the threat and the opportunity is to improve the efficiency and competitiveness of its industries.

Accession to the EU and WTO trade and investment agreements is the key mechanism under which globalization will occur. Entrance into these agreements will surely incur costs and adjustment problems, but experience has shown that the faster a nation truly adopts open trading and investment rules, the faster it will reap the benefits of liberalized policies. In fact, a prudent strategy would be to implement accession reforms as rapidly as possible in order to attract the important initial inflows of new investment.

Increasing interest of U.S., Asian and European firms in the Jordanian economy is being fueled by their need to identify new growth opportunities. Many industrialized country markets are "saturated" in certain product categories, and growth rates have reached plateaus. Accordingly, sites for new production and marketing activities are actively being explored. The Middle Eastern region constitutes one of the few frontiers left for market expansion. Installing an attractive policy environment will be a critical requirement for enticing multinational investors.

The central strategic element to deal with all the factors noted above is the need for Jordan to put into place the best possible set of commercial policies. Nations and regions have overcome all sorts of problems and constraints by creating systems that welcome and nurture private enterprises. The following chapters show that Jordan's commercial policy environment has improved dramatically in recent years and now compares well with those of many countries. However, further improvements will be essential to stimulating an economic "take off" phase in the Jordanian economy.

IV. JORDAN'S COMMERCIAL POLICY ENVIRONMENT

Overview

Jordan offers to private investors one of the most favorable commercial policy regimes in the Middle East. Jordan's policy climate also compares favorably with those of many industrialized (OECD) nations and most other countries. Jordan's import and investment policies are the best in the region, while its tax and labor policies are among the most business friendly in the world. In just a few years, Jordan has undergone a profound transformation in economic ideology and policy framework, from a protectionist and statist environment to one that encourages the free flow of goods and investment and allows the private sector to flourish.

Since the Economic Reform and Structural Adjustment Program was initiated in 1989, a number of important laws and regulatory initiatives that have markedly improved Jordan's commercial policy environment have been enacted. These include the following:

_ The new Income Tax Law No. 14 of 1995, which reduced taxes on income.

_ The Investment Promotion Law No. 16 of 1995, which established incentives for domestic and foreign investment.

_ The General Sales Tax Law No. 6 of 1994, which decreased the government's dependency on customs duties and fees for revenue.

_ The Labor Law No. 8 of 1996, which established an investor-friendly labor environment.

_ The Law of Unification of Taxes and Fees No. 7 of 1997, which lowered tariffs and consolidated tariffs and fees for increased transparency.

_ A new Companies Law was drafted in 1997 as an amendment to the previous one, abolishing and simplifying several business licensing requirements and improving the regulatory environment for corporate governance and finance.

Several other laws and regulations have significantly liberalized Jordan's pricing, interest and foreign exchange policies, helping to integrate the country into the world economy. Moreover, impending legislative action on the Securities Law (a "provisional law" until Parliament ratifies it), Safeguard Law, Competition (Antitrust) Law, Leasing and Secured Financing Law, Customs Law, and Intellectual Property Rights Law, as well as Jordan's expected accession into the World Trade Organization, will continue to improve an already attractive business environment.

Jordan's overall score in the commercial policy matrix is 77 out of a possible maximum score of 100. This represents a strong "business friendly" policy environment. Jordan scores the highest among regional nations used as benchmarks.

Jordan's overall scores by policy category are presented in the table on the following page. As one can see, Jordan achieved the highest scores in the areas of export, tax and labor policies. Jordan also scored well in import, investment incentives, (lack) of foreign investment restrictions, and pricing and interest policies. Functional areas where attention should be drawn to improve policies include business start-up procedures and the foreign exchange regime.

The scoring of individual variables in each policy category is presented below in this chapter, including brief discussions on issues related to the policy climate's relative strengths and weaknesses. The next chapter compares Jordan to other countries scored for comparative purposes as "competitors" or possible models for Jordan to consider.

Jordan faces two challenges. The first is to continue on the path of economic liberalization, which includes the successful enactment of pending laws and the identification and removal of additional constraints to private enterprise development. This includes making sure that policy level changes are fully implemented at all levels of government, from Ministers to entry-level officials who administer Jordan's laws and regulations. A separate report will contain our team's assessment of these remaining areas for improvement. In view of the constraints to investment that Jordan faces but are beyond its control -- deterrents such as actual and perceived regional instability, the small size of the market, and limited production resources -- Jordan needs to offer an exceptionally "friendly" business policy climate if the nation is to attract the new productive investment it needs.

The second challenge is to make sure that all prospective investors, but foreigners in particular, are made aware of Jordan's noteworthy commercial policy environment. Jordan has for all intents and purposes been "off the radar screens" of investors seeking sites for new investments. It is therefore important for Jordan to make known the recent gains in policy climate improvements in order to position the nation in the minds of prospective investors as an attractive site to do business.

SUMMARY SCORES OF JORDAN'S COMMERCIAL POLICY REGIME		
Commercial Policy Category	**Jordan's Final, Weighted Policy Score**	**Maximum Possible Score**
Import Policies	**12**	**16**
Export Policies	**6**	**8**
Tax Policies	**16**	**16**
Investment Incentives	**8**	**8**
Foreign Investment Restrictions	**6**	**8**
Business Start-Up Procedures	**4**	**8**
Pricing/Interest Policies	**9**	**12**
Foreign Exchange Policies	**8**	**16**
Labor Policies	**8**	**8**
Overall Total Policy Score	**77**	**100**

IMPORT POLICIES

Jordan's import policies have been improved significantly over the past few years as part of the government's initiative to integrate Jordan's economy more fully into world markets. Improvements have occurred in all important import policy areas included in the commercial policy model -- average tariff rates, tariff rate variance and the percentage of goods subject to non-tariff barriers.

Mean Tariff

In an effort to open its economy, Jordan has actively undertaken significant trade liberalization process, dropping its mean trade-weighted tariff from 16.8 percent in 1987 to 13.7 percent in 1996. The real figure is likely to be much lower, as a significant number of goods are exempted from customs duties and are therefore not calculated into the average.

Improvements are likely to continue. In November 1997, the government signed an economic Partnership Agreement with the European Union (EU), aiming to establish free trade relations between Jordan and the EU by 2010. Jordan has also applied for entrance into the World Trade Organization (WTO), and working group level discussions are already firmly underway. Upon entrance into these agreements, Jordan will lock itself into a liberal trading regime, subject to the requirement of opening its economy even further with new rounds of negotiations.

Jordan is also likely to become part of a new Pan-Arab regional trade agreement, under which Jordan would grant wider market access to its neighbors. Discussions are expected to gain momentum in 1998, with a goal of setting up the regional free trade area by 2007. If successful, the accord would immensely improve Jordan's current trade relations with neighboring Arab countries, which are currently regulated by restrictive bilateral trade protocols.

Jordan earns the highest possible score of 4 for the average tariff rate category.

Tariff Variance

Jordan's overall tariff rate variance, the difference between the top and minimum tariff rates, has been significantly reduced. The Law on Unifying Import Fees and Taxes No. 7, passed in 1997, has instituted a top customs rate of 40 percent. Jordan's minimum tariff rate is 0 percent. However, when compared to those of other countries, the 40 percentile difference between the top rate and the lowest rate remains high when compared to other countries. A further lowering of the top rates would reduce economic distortions brought about by differentiated import costs.

Jordan scores 0 out of a possible 4 points for the tariff variance category.

Non-Tariff Barriers

The percentage of goods subject to non-tariff barriers such as quotas and licenses was 16.8 percent according to the latest available figures. Approximately 13.3 percent of Jordanian goods were subject to license requirements, while 3.9 percent of goods were prohibited from importation. Goods most subject to non-tariff barriers include cereals, vegetable oils and oil seeds, medicines, manufactured fertilizers, transportation equipment, and non-metal mineral products. Many of these restrictions have been abolished by the Customs Department in the recent past; however, private sector interviewees report that these directives have still not reached working-level customs employees.

Other important areas still need to be addressed. Trade in services is highly restricted, with foreign service providers subject to barriers in virtually all service industries. Jordan's eventual entrance into the WTO would likely address this issue, as Jordan would be forced to grant foreigners most-favored-nation (MFN) or national treatment.

Another area to be addressed is the web of bilateral trade protocols to which Jordan is a part. These trade agreements are not liberalizing in nature, but instead often stipulate barter trade between nations, with their extent and commodity composition subject more to the political winds of the time than to true complementarities of need or production. Countries with which Jordan has trade protocols include Syria, Lebanon, Saudi Arabia, Iraq, Yemen, Bahrain, Libya, Morocco, Tunisia, Kuwait, Israel, Egypt, United Arab Emirates and Oman, as well as the Palestinian National Authority. These agreements are becoming more liberal in nature, particularly those with Bahrain, and the intended new pacts with Morocco and Tunisia. However, the government of Jordan has announced its intention to phase out remaining trade protocols upon entrance into the WTO in order to meet the general requirements of MFN treatment.

A third area of non-tariff barriers to trade is the imposition of the import and export fee worth 5 percent of the value of goods. This is the sole remaining non-customs fee after the issuance of the Law on Unifying Import Fees of 1997. Imposed under Article 12 of Import and Export Regulation No. 74 of 1993, the fee raises effective tariff rates by 5 percent, acting as a disincentive to trade.

Upon passage of the new tariff law, luxury goods that carried especially high duties were made subject to high new sales taxes, a reflection of the government's need to compensate for losses in customs revenues, on which it has been traditionally dependent. The most important source of revenue is the tax on automobiles, taxed according to engine size, with rates varying between 39 and 141 percent of the value of the vehicle. Sales taxes for some goods, notably cigarettes and alcoholic beverages, are higher for imports than for domestic products. It is uncertain whether these differential sales taxes would be eliminated upon entrance into the WTO.

Jordan scores 3 out of 4 possible points in the category of non-tariff barriers.

Summary of Import Policies	

Summary of Import Policies	
Mean Tariff	13.7 percent
Tariff Variance	40 percent
Goods Subject to Non-Tariff Barriers	16.8 percent of all goods.

EXPORT POLICIES

Jordan has one of the best export policy regimes in the region. Exporters of goods benefit from significant incentives and a restriction-free environment, resulting in considerable growth in export-oriented manufacturing in Jordan since the early 1990s.

Export Taxes

Jordan does not generally tax exports, although exceptions exist. Scrap iron, brass and aluminum are subject to fees of JD 25 per ton. The Customs Department also charges a fee of 2 percent of the value of goods for valuing foreign goods for re-export, although many exemptions are granted. Jordan also collects fees ranging from 0.25 to 1 percent of the value of goods exported to countries with whom Jordan has signed trade and protocol agreements, such as Lebanon, Libya, Morocco, Saudi Arabia and Yemen. Goods exported from free zones are exempted from all fees.

Jordan scores .5 out of a possible 1 point for the export tax variable.

Export Restrictions

The Export Regulation No. 1 of 1997 stipulates that no export licenses are needed for Jordanian goods, transit goods, Free Trade Zone goods, re-exports, or goods that have entered the country temporarily. However, a number of goods require permission for exportation, mostly cereals, pasta, halibun, olives and olive oils, other agricultural goods, and precious metals. Other goods can only be traded by specific companies. For example, the Jordan Tanning Company is the sole exporter of raw hides, while only the Jordan Cement Factories Company is eligible to export Portland cement, explosives, ammonium nitrate, and rock phosphate. Gas cylinders, petroleum and petroleum derivatives can only be exported by the Jordan Petroleum Refinery Company.

Jordan scores 2 out of a possible 3 in the export restriction category.

Export Income Tax Exemption

Article 3 of the Income Tax Law No. 14 of 1995 stipulates that earnings from the exportation of goods are 100 percent exempt from income taxes. Exceptions exist for exports of potash, phosphates and fertilizers. Service exports, which according to International Monetary Fund figures are roughly equal to merchandise exports, are not granted such concessions, causing engineering, software programming, consulting, and financial services companies to complain that the policy distorts Jordan's comparative advantage in services. The Free Zones Law stipulates that foreign and domestic companies in free zones are exempted from all income and social service taxes for a period of 12 years.

Jordan scores .5 out of a possible 1 in the variable covering export income tax exemptions.

Duty Free Imports

Jordan provides several options for importing goods duty-free. Companies interested in conducting export-oriented activities or trading operations may choose to set up operations inside any of the public or private free zones in the country where they enjoy exemption from duties, import fees and sales taxes for imported goods. The Investment Promotion Law, which stipulates incentives for companies in targeted industries, grants duty free status for fixed assets and upkeep capital assets for approved projects for a limited amount of time.

Exported Jordanian-produced goods that are imported back into the country within a period of three years are also exempt from duties and fees. However, if at the time of exportation customs duties and other taxes were refunded because goods were for export, such duties are repaid upon the re-entry of the goods into Jordan.

Jordan scores 1 out of a possible 1 for duty free imports for export activities.

Summary of Export Policies	
Export Taxes	Some.
Export Restrictions	Minimal.
Export Income Exemption	Yes. Through the Investment Promotion Law and Foreign Zones. None for service industries.
Duty-Free Imports	Yes. Through the Investment Promotion Law and Foreign Zones.

TAX POLICIES

Jordan's tax policies are very competitive regionally and world-wide. The country has undergone important tax reform in the last few years, resulting in an environment very conducive to foreign and domestic investment.

Minimum and Maximum Corporate Tax Rates

Tax rates for foreign and domestic companies are determined by the activities in which companies are engaged. The Income Tax Law No. 57 of 1985 was amended in 1995 to lower the general tax rates for corporations and individuals. After deductions for allowable expenses, income is taxed at the following rates:

r 15 percent for companies in mining, manufacturing, hotels, hospitals, transportation and construction projects with paid-up capital above JD 1 million. The Council of Ministers can also decide to extend the list of industries in this category.

r 35 percent for banks, financial companies, insurance companies, exchange companies and brokerage companies.

r 25 percent for all other businesses, including trading and service companies.

Previous rates varied between 38 and 55 percent, depending on the type of company activity involved. However, while it is clear that the differential tax structure is intended to encourage certain activities (and discourage others), this does introduce a policy-induced distortion. Nevertheless, the Jordanian private sector has welcomed the tax reduction as "investor friendly."

Income tax is levied on taxable profit arising from sources in Jordan -- that is, if either the place of performance of work or the place of delivery of work is located in the Kingdom. Dividends and profits distributed to shareholders and partners are subject to a distribution tax at the rate of 10 percent of the distributed profits and dividends. Profits transferred abroad by a foreign company operating in Jordan are considered distributed profits and are taxed accordingly. For banks, insurance and other financial services companies, deductions may not lower the effective tax rate below 25 percent of their net annual income from all their sources as declared in their accounts.

Jordan receives a score of 3 out of 3 for its minimum corporate income tax, and 2 out of 3 for its maximum corporate income tax.

Personal Income Tax Rates

The new income tax law also lowered personal income tax rates, setting them between 5 and 30 percent of income, as can be seen in the following table.

Jordan Tax Brackets		
Slice of Taxable Income	**Rate of Tax Applicable to Slice**	**Cumulative Tax on Upper Income Limit**
JD	**%**	**JD**
0-2,000	5	100
2,000-4,000	10	300
4,000-8,000	15	900
8,000-12,000	20	1700
12,000-16,000	25	2700
Over 16,000	30	-

Source: ***Saba & Co.***

The tax system provides significant exemptions and allowances. Income earned by non-Jordanians working for foreign companies in Jordan is exempt from income taxes. Different tax exemptions are given to public and private sector workers, with public sector employees receiving a tax exemption for 50 percent of their income, while private sector employees receive a 50 percent exemption on the first JD 12,000 of their salaries and wages, and 25 percent on every dinar thereafter. Allowances are made for major expenses such as housing rent, interest expenses on home mortgages, medical costs, contributions to the Social Security Corporation and others. An important issue to note is that the Social Services Tax Law of 1953 imposes a surcharge at 10 percent, raising the effective top tax rate to 33 percent, for example.

Jordan receives a score of 3 out of 3 for both its minimum and top personal income tax rates.

Sales Tax

As part of its move away from customs duties, in 1994 the government of Jordan passed a new General Sales Tax Law, which was amended the next year. The new law, which is being applied in two stages, first became effective on October 1995, imposing a 10-20 percent sales tax on manufacturers, importers of goods and services, and merchants and service suppliers with sales above JD 100,000 per year. The tax will later extend to affect wholesalers and retailers. Most goods and services are taxed at 10 percent. On domestic transactions, the tax is paid upon the sale of a good or the rendering of a service, while in the case of imports, the tax is paid at time of entry into the country (i.e., applied like a tariff).

As noted above, exported products and services are not taxed. Neither are many consumer products, particularly food products. Other activities not subject to the General Sales Tax are:

è Goods procured from the local market for the armed forces, public security services, civil defense, customs police or intelligence services.

è Customs duties, fees and other taxes exempted by the Investment Promotion Law.

è Goods in transit.

è Products and services exported abroad via the free zones.

è Products and services "exported" abroad by companies established in the free zone areas, free markets and cities. No sales tax is due on the products and services imported by such companies and deemed necessary for carrying out licensed activities within the free areas, free cities and markets.

However, taxes are due on products and services that are not part of the exempted list, i.e., those imported into free zones, cities and markets and then re-sold into the domestic market, as well as on products or services manufactured in free zones and cities when consumed or used domestically.

Certain so-called "luxury" goods are taxed at the higher rate of 20 percent, including photographic and movie film, air conditioning units, perfumes and related beauty products, and several other products. Alcoholic beverages, tobacco products, and automobiles are taxed at much higher rates, providing an important source of revenue for the government.

Jordan scored a total of 2 points out of 3 possible points in the sales tax category.

Summary of Tax Policies	
Minimum Corporate Tax Rate	15 percent for several significant promoted industries.
Top Corporate Tax Rate	35 percent for banking/finance.
Minimum Personal Tax Rate	5 percent on income less than JD 2,000 a year.
Top Personal Tax Rage	30 percent on income above than JD 16,000 a year.
Sales Tax	10 percent on most goods and services.

INVESTMENT INCENTIVES

The government of Jordan offers a generous incentive regime for both Jordanian and foreign investors, including significant income tax holidays according to activity and location, duty exemptions on imported inputs, and tax deductions for re-investment profits and research and development expenses.

Income Tax Holiday

In an effort to stimulate new investment, the government of Jordan passed the Investment Promotion Law No. 16 of 1995, which with its subsequent amendments and clarifications acts as the framework for promoting investment. In order to encourage new investment into lesser developed areas, the law divides the country into three zones according to level of development, granting income and social service tax holidays of:

m 25 percent for projects in Zone A (higher level of development).

m 50 percent for projects in Zone B.

m 75 percent for projects in Zone C (lower level of development).

Tax holidays are granted for a period of 10 years. If a project is expanded, improved or modernized resulting in increases in output, the project will receive an additional year of tax holiday for each year in which production increases above 25 percent, for a maximum of four years.

The Law created the Investment Promotion Corporation, which is charged with the implementation of this law. The law also gave the Council of Ministers the authority to add other target sectors. Incentives are currently granted for the following activities:

Ø Agriculture.
Ø Conventions and Exhibition Centers.
Ø Hotels.
Ø Hospitals.
Ø Industry.
Ø Leisure and Recreational Compounds.
Ø Maritime Transport and Railways (for projects with initial capital exceeding JD 1,000,000).

As one can see in the following table, tax incentives vary both according to the site of operations and the type of investment activity.

Jordan scores 1 out of a possible 1 point for the tax holiday variable.

INVESTMENT INCENTIVES BY SECTOR AND AREA					
		Industry	**Hotels**	**Hospitals**	**Agriculture/ Maritime & Railways/ Recreational Compounds/ Convention Centers**
The Capital	Amman borough	25%	25%	25%	75%
	Ras Al-Ain	25%	50%	25%	75%
	Marka	25%	75%	50%	75%
	Qweismeh	25%	75%	75%	75%
	University	25%	25%	25%	75%
	Wadi Al-Seir	25%	75%	50%	75%
	Marj Al-Hammam	25%	75%	50%	75%
	Iraq Al-Amir	25%	75%	50%	75%
	Sahab	25%	75%	75%	75%
	Muwagar	50%	75%	75%	75%
	Gizeh	50%	75%	75%	75%
	Umm Al-Rassas	75%	75%	75%	75%
	Al-Qunaitrah	75%	75%	75%	75%
	Dhab’ab	75%	75%	75%	75%
	Al-Amiriayya	75%	75%	75%	75%
	Zmeileh	75%	75%	75%	75%
	Na’our	25%	75%	75%	75%
	Hisban	50%	75%	75%	75%
Irbid	Irbid Kasava	50%	50%	75%	75%
	Other districts	50%	75%	75%	75%
Balqa	Salt Kasaba	50%	75%	75%	75%
	Deir Alla	75%	75%	75%	75%
	Souther Shouneh	75%	75%	75%	75%

INVESTMENT INCENTIVES BY SECTOR AND AREA					
	Ain Al-Basha	25%	75%	75%	75%
Karak	Karak districts	75%	75%	75%	75%
Ma'an	Wadi Mousa	75%	25%	75%	75%
	Remaining Ma'an districts	75%	75%	75%	75%
Zarka	All Zarka districts	25%	75%	75%	75%
	Al-Azraq	50%	75%	75%	75%
	Berain	50%	75%	75%	75%
	Al-Hashmiyeh	50%	75%	75%	75%
	Ad-Dulayl	75%	75%	75%	75%
	Qaser Al-Halabat	75%	75%	75%	75%
Mafraq	All Mafraq districts	75%	75%	75%	75%
Tafileh	All Tafileh districts	75%	75%	75%	75%
Madaba	Madaba borough	50%	75%	75%	75%
	Thiban	75%	75%	75%	75%
Jerash	All Jerash districts	75%	75%	75%	75%
Ajloun	Ajloun	75%	75%	75%	75%
Aqaba	Aqaba borough	75%	75%	75%	75%
	Qwaireh	75%	75%	75%	75%

Source: ***Investment Promotion Corporation***

Duty Exemptions

The Investment Promotion Law No. 16 of 1995 instituted incentives for firms investing in Industry, Agriculture, Hotels, Hospitals, Maritime Transport & Railways, and other sectors to be authorized by the Council of Ministers in the future. The Council has recently added Leisure and Recreational Compounds and Convention and Exhibition Centers as new sectors to promote. Projects in targeted industries can gain duty exemptions for the following types of goods:

- Fixed assets for a period of three years.
- Fixed assets required for expanding, modernizing, or developing the project if such additions will result in increasing production capacity by over 25 percent.
- Spare parts, as long as their value does not exceed 15 percent of the total value of the fixed assets utilizing the parts. Such parts must be imported within 10 years from the beginning of the project.
- Furniture and other similar supplies for hotels and hospitals, every seven years. Such purchases must be made within four years of the time the exemption is granted.

Jordan scores 1 out of 1 for duty exemptions.

Other Incentives

Jordanian law offers income tax exemptions to companies re-investing profits as a way of encouraging re-investment of capital into new or expanded economic activities. Jordan also offers deductions for company expenditures on staff training, marketing, and research and development. Allowances for capital depreciation are less generous than in some other countries, with accelerated depreciation only allowed if a taxpayer can prove unusual depreciation due to high wear and tear (e.g., multiple work-shift usage), provided that total depreciation does not exceed double the usual rates.

Jordan receives a score of 2 out of 2 for other incentives.

Summary of Investment Incentives	
Income Tax Holiday	Yes. Through the Investment Promotion Law.
Duty Exemptions	Yes. Through the Investment Promotion Law.
Other Incentives	Exemptions for reinvested profits, staff training, marketing research, and research and development.

FOREIGN INVESTMENT RESTRICTIONS

Jordan's policies relating to restrictions on foreign investment have significantly improved in the past few years. However, several restrictions remain in place, and further reforms will need to to be made in order for Jordan to accelerate inflows of foreign investment.

Foreign Direct Investment Restrictions

Although the Investment Law declares that foreigners are to be treated equally with non-Jordanians, distinctions remain. Foreigners may not own more than 50 percent of companies operating in several important sectors, including:

- Construction contracting
- Wholesale and retail trade and commercial services
- Mining

Non-Jordanians are also restricted from owning more than 50 percent of any public shareholding company in these three sectors, unless the foreign share of the company at the time of the closing of the subscription was above that level. In such cases, the maximum foreign ownership will be set at the previous threshold of foreign investment.

Foreigners are required to invest a minimum of JD 50,000 in any project in which they participate directly. A similar floor on foreign investments through the Amman Financial Market of JD 1,000 was eliminated in February 1997.

Jordan earns a score of 1 out of 2 possible points in the category of foreign investment restrictions.

Expatriate Worker Restrictions

Obtaining business travel visas and work permits for non-Jordanians seeking to visit or work in Jordan is an important deterrent for foreign investment. Entry visas from Europe and the United States can generally be secured at the airport upon arrival. However, private sector executives cite instances where business partners could not obtain entry visas promptly, particularly those from other Arab countries. Others complain of difficulties in getting work permits for key technical personnel from abroad, which technically should be automatic so long as the company can justify the hiring. The Ministry of Labor, which is in charge of issuing regulations on foreign worker licensing and licensing fees, stipulates several occupational categories in which the hiring of foreigners is prohibited. Due to high unemployment among native Jordanians, the government also has strict regulations and high permit fees for the hiring of unskilled and low-skilled foreign workers.

Jordan earns a score of 1 out of 2 possible points in expatriate worker restriction category.

Differential Treatment

The new Companies Act regulating the activities of foreign enterprises significantly improves the ability of foreigners to conduct operations in Jordan. The act allows foreign companies to open "non-operating companies" (regional representative offices) in Jordan or full "operating foreign companies" (branch offices). Branch offices are allowed to conduct all commercial activities (except for those specifically restricted to foreigners) upon registration and receipt of all related work permits.

Regional offices, on the other hand, are only allowed to perform limited functions serving as intermediaries between home offices and clients in Jordan and the region. Such operations are restricted from serving as agents or distributors, or from carrying out any business activities in Jordan. Moreover, Jordanians need to makeup at least 50 percent of the total number of employees. Such companies, however, enjoy several incentives, including:

- Exemption from income and social service taxes from profits earned outside the country.
- Exemption from income taxes and social service taxes for the salaries of foreign employees.
- Exemption from certain registration requirements.
- Exemption of duties and custom fees on office equipment imports.

A foreign company can also choose to register as a "non-permanent branch operating office" (project office), a status sought by companies performing contract work for a limited amount of time. One somewhat confusing aspect of the new investment regime is that instead of stipulating that all the rights and responsibilities of national companies also apply to foreign companies, a new law was drafted specifically targeted at foreign companies. While the new rules confer upon foreign companies treatment similar to that accorded to domestic companies, the laws differ in few minor respects. This can potentially result in confusion.

Jordan earns a score of 1 out of 1 for the differential treatment variable.

Dispute Settlement

Jordanian law stipulates that any dispute between the government of Jordan and a foreign investor that cannot be solved within a six-month period can be taken to the International Center for the Settlement of Investment Disputes by either party.

This earns Jordan a score of 2 out a possible 2 points in the dispute settlement category.

Foreign Investment Restrictions	
FDI Restrictions	Moderate. Cannot own more than 50 percent of a company in construction contracting, wholesale and retail trade and commercial services, and mining.
Expatriate Labor Restrictions	Permits can be problematic.
Differential Treatment	Moderate.
Dispute Settlement	Law No. 16 recognizes the International Center for Settlement of Disputes.

BUSINESS START-UP

Registration of a company with the Controller of Companies is a relatively simple procedure, which according to private and public-sector sources can be accomplished at the Ministry of Industry and Trade within an hour. Other business start-up procedures, however, particularly the attainment of all relevant permits necessary for a company to begin operations, are perceived to be important deterrents to new investment, particularly for foreigners. While nationals may be willing and able to persevere through the bureaucratic hurdles of the Jordanian regulatory environment, foreigners with less knowledge about local regulations, and with other attractive investment opportunities available elsewhere, have found business-start up procedures onerous. Local Jordanian small and medium-sized companies with fewer resources to spend than larger companies with personnel dedicated to learning and working through the government bureaucracy also bear a high cost from start-up procedures.

Several studies have analyzed some of the general problems associated with the business start-up regime, including the existence of too many layers of officials in too many agencies needing to approve and review documents, with little coordination among them. These difficulties are often exacerbated by the lack of clear rules regarding all necessary permits, as well as by the lack of specific guidelines on the documents and processes required to obtain them. Even when the processes are understood, the required documentation for approval can be onerous to obtain. All companies operating in Jordan are required to register with:

- The Controller of Companies at the Ministry of Industry and Trade.
- The Chamber of Commerce or the Chamber of Industry, depending on their activity.
- The Income Tax Department.
- The Social Security Corporation (for companies employing more than five people).
- The corresponding municipality to obtain annual licenses.
- The Department of Industrial Development for industrial projects to receive an industrial registration certificate.

The following box outlines the major steps necessary for a foreign company to register in Jordan.

STEPS TO REGISTERING A FOREIGN BRANCH IN JORDAN

1. An application must be signed before the Controller of Companies or anyone authorized by him in writing or before the Notary Public, along with the following information:

   - The name, type, and share capital of the company.
   - The objective of the company in Jordan.
   - Detailed information concerning the founders or partners of the company and its board of directors and the number of shares, if any, held by each of them.

2. The following documents must be attached to the application of the registration:

   - The Articles of Memorandum of Association of the foreign company.
   - Written official evidence of approval from the relevant authorities for the conduct of activities in Jordan and the investment of foreign capital therein.
   - A list of the names of the members of the foreign company's board of directors, along with the nationality of each one, in addition to the names of the persons authorized to sign on behalf of the company.
   - A copy of the proxy according to which the foreign company authorizes a person resident in Jordan to receive notification on its behalf.
   - A balance sheet authenticated by a licensed auditor for the last fiscal year of the company in its headquarters.

3. All documents must be certified by the Jordanian Embassy and the Ministry of Foreign Affairs in the country of origin in addition to the Ministry of Foreign Affairs in Jordan. The documents must also be translated into Arabic.

4. The translation must be certified by the Notary Public in Jordan.

Source: ***The Investment Promotion Corporation***

Efforts by the Investment Promotion Corporation to establish a “one stop shop” to take care of all business start-up procedures have been abandoned, illustrating the complexity of the procedures. However, several positive steps have been recently taken, such as the elimination of certain “no objections’ certificates that used to be required from several Ministries with jurisdiction over business regulations before businesses could operate.

Jordan earns a score of 2 out of 4 possible points for business start up.

Summary of Business Start-Up Procedures	
Business Start-Up Procedures	Several problems. Numerous and unclear permit requirements.

PRICING/INTEREST POLICIES

Jordanian policies on pricing and interest rates are becoming increasingly more market friendly. Controls are being continuously eliminated, but there is a need for more publicly available information on the status of reforms.

Price Controls

The government of Jordan has been steadily decreasing the number of goods subject to price controls, either through privatizing their importation or by lifting price controls. While in 1994 Jordan had a list of over 60 controlled goods -- 50 percent of which were foodstuffs -- it now only controls prices/quantities on less than ten staple goods, including:

- wheat and its derivatives
- maize
- barley
- cigarettes (local and imported)
- cement
- oil and derivatives
- milk derivatives
- meat imports

In general, the Ministry of Supply's policy has been to withdraw controls gradually, first by allowing the private sector to import commodities that formerly only the government could import. Once the Ministry becomes satisfied that the amounts of a commodity being imported are appropriate, it withdraws from importing altogether, limiting its involvement to maintaining strategic reserves. The government has announced that with the passing of competition legislation currently being discussed in Parliament, its withdrawal from quantity/price setting will be completed. Only wheat and flour, which are politically sensitive goods, will continue to be controlled in any way by the end of the year. Government price-setting policies on even this commodity have markedly improved in the recent past, with the lifting of bread prices, choosing to provide monthly direct subsidies instead. Accordingly, prices for wheat, flour and bread are now set at international market prices.

Given recent improvements in the policy regime, Jordan receives a 1 out of a total of 2 possible points for the price control variable.

Price System

With the above-mentioned exceptions, the Jordanian price system is characterized as being driven by market forces. Accordingly, Jordan scores 2 out of 2 points in this category.

Interest Control

In the past 12 years, the Central Bank of Jordan (CBJ) has liberalized its control over interest rates. After years of government-set interest rates, the CBJ announced in 1986 that it would allow deposit rates to float, which was followed in 1990 by the liberalization of lending rates. Since then, the Central Bank has maintained its supervisory role through open market operations. In 1993, the CBJ began to manage liquidity by issuing fixed rate certificates of deposit (CDS). In June 1997, CDS have been auctioned every two weeks.

Jordan earns 1 out of a possible 1 point for the interest control variable.

Credit Allocation

Credit allocation in Jordan is conducted through the market. The Jordanian financial system is continuing to develop from an already strong base, with most services available through the country's banks and investment houses.

Since the late 1980s, when banks made a series of risky lending decisions with a recession underway and accumulated a significant amount of non-performing loans, banks have been very conservative in their lending. Analysts have faulted Jordanian banks for demanding high spreads and lending only to borrowers with real estate collateral. This conservatism has exacerbated tight monetary policies, keeping lending rates near 12.5 percent for prime borrowers. Central Bank of Jordan reductions in discount rates have been followed up by reductions in bank lending rates, but only slowly. In general, banks do not announce their lending rates, with investors likely to find rate differences from bank to bank.

Jordan earns a score of 2 out of a possible 2 points for credit allocation.

Summary of Pricing/Interest Policies	
Price Controls	Selective. Less than 10 controlled goods remaining, most of which are staple foodstuffs.
Price System	Market.
Interest Control	No.
Credit Allocation	Market.

FOREIGN EXCHANGE POLICIES

Jordan has a liberal foreign exchange system with minimal restrictions for foreign investors. The Jordanian dinar (JD) is fully convertible into any other major currency, being pegged at 1.41 $/JD since mid-1995. Recent moves to liberalize remaining exchange rate controls have been successfully undertaken, increasing the amount of deposit flows into the Jordanian banking system and affirming foreign and domestic investors' present confidence in Jordanian exchange policies.

Foreign Exchange System

Since October 1995, the Jordanian dinar has been pegged to the U.S. dollar at 1.41 $/JD. Monetary authorities have repeatedly expressed their determination to maintain the peg.
There are obvious benefits to maintaining a stable currency in a region full of uncertainties, and the $2.17 billion in foreign reserves that according to the IMF were held the by the Jordanian government at the end of October 1997 serve to provide further tranquility to holders of Jordanian currency. (The CBJ uses a different accounting method to measure Jordanian reserves, listing total reserves at $700 million at the end of 1996). This policy has necessitated the maintenance of high interest rates, however, with high costs to economic activity, and to the export sector in particular. Moreover, the long-term viability of the peg is tested every few months by rumors of impending monetary collapse.

Due to the pegging of the Jordanian dinar to the U.S. dollar, Jordan receives 0 out of 3 possible points in this category.

Foreign Exchange Rate Level

The fixed peg of the dinar to the dollar has produced a real overvaluation of the dinar since the devaluation of 1988 due to inflation differentials between Jordan and the United States. Since 1991, the value of the dinar has declined by only approximately 4 percent against the dollar. Jordanian exports, however, have been able to grow by 6.9 percent in 1993, by 14 percent in 1994, 2.6 percent in 1995 and 3.5 percent in 1996. Such growth has been remarkable given declining revenues in some of the main Jordanian exports such as phosphates. Even so, the valuation of the dinar is undoubtedly a disincentive to the attraction of foreign investment seeking to export out of Jordan.

Jordan receives a score of 0.5 out of 1 for the foreign exchange rate level.

Foreign Exchange Restrictions

The Central Bank of Jordan has moved to remove all significant restrictions to foreign exchange trading. In general, investors may transfer funds into Jordan, and then transfer them within and outside the country in the same or any other currency, with minimal or no restrictions. The Jordanian currency is convertible into any other major currency.

In the past, importers needed to notify the CBJ to obtain a foreign exchange permit. This process was automatic upon the presentation of an import license. However, two major sets of new rules have liberalized the foreign exchange regime. On October 1996, the CBJ announced the following measures:

- It decreased the required reserve ratio on foreign deposits at banks from 35 to 14 percent, in order to give them the same treatment of the required reserve ratio for JD deposits. This was done to unify the treatment to both kinds of deposits. Banks are now free to manage their foreign exchange accounts as they do their domestically dominated accounts.

- It removed obstacles to trade in foreign exchange, including:

  - Equal treatment for resident and non-resident accounts for the treatment of current payments.
  - Removal of ceilings for resident accounts in foreign currency.
  - Permission for banks to engage in dinar/foreign currency swap operations in which the bank buys the foreign currency to sell it back at any determined date (but not the other way around).

A second round of reform measures was announced in June of 1997. Banks are now allowed to:

- Open resident accounts in foreign currency accounts with no limits.
- Open non-resident accounts in dinar or foreign currencies.
- Transfer values of imports to foreign beneficiaries without CBJ approval (permits are still needed when the transaction is with a beneficiary from a country with which Jordan has a trade protocol).
- Transfer foreign currency to foreign beneficiaries to cover the value of imports based on valid letters of credit, bills of collection, accepted discounts or customs declarations.

At the same time, residents are allowed to:

- Bring and take dinar banknotes and other dinar denominated instruments in and out of the country with no restrictions.
- Receive foreign currency transfers in dinars or foreign currencies.

Market reaction to the foreign exchange liberalization has been good, resulting in a net inflow of deposits into the Jordanian banking system. Remaining restrictions, such as needing to clear transfers to cover values of investments made out of Jordan by the CBJ, pose little disincentive to investment in Jordan.

Jordan receives a score of 2.5 out of a possible 3 points in the area of foreign exchange restrictions.

Profit and Capital Repatriation Restrictions

Jordan does not restrict profit or capital repatriation. Therefore, the country receives a score of 2 out of 2 possible points in each of these categories.

Summary of Foreign Exchange Policies	
Foreign Exchange System	Pegged to U.S. $.
Foreign Exchange Level	Arguably overvalued.
Foreign Exchange Restrictions	Very minimal.
Profit Repatriation Restrictions	No.
Capital Repatriation Restrictions	No.

LABOR POLICIES

Jordanian labor policies are business friendly, providing investors a flexible structure that allows companies to expand or restructure according to market forces, does not artificially increase the cost of labor through minimum wages, and institutes no wage controls.

Hiring/Firing Flexibility

Jordanian law provides private enterprises with flexibility in hiring and firing workers. The new Labor Law that came into effect on June 1996 stipulates that employees may be let go for any justifiable reason without firms being liable to pay compensation, unless such compensation has been agreed upon contractually. Employers also have the freedom to reduce wages. Employees are generally protected by cultural norms that discourage lay-offs. The only problem cited by interviewed companies is the politically sensitive regulation for hiring expatriate workers, which affects both Jordanian and non-Jordanian companies. This is discussed in the "foreign investment policies" section of the report.

Jordan receives 2 out of 2 points in the category of hiring/firing flexibility.

Minimum Wage

Jordan does not have a national minimum wage. The new law, however, gives the government the authority to set one. Ministry of Labor officials insist that figures currently being considered would not significantly affect prevailing labor market trends. Minimum wages may be differentiated by occupation and location.

Jordanian law grants unions the right to collective bargaining, something which is often used during wage and benefits negotiations with employers. If negotiations reach a stalemate, any disputes can then be taken to the Ministry of Labor for arbitration, where they are generally resolved.

Jordan receives 1 out of 1 possible point for minimum wages.

Wage Controls

Jordan has no wage controls. However, the government keeps minimum wages for several professions, which are set on the advice of an advisory panel of made up of worker, industry and government representatives.

Jordan receives a score of 1 out of 1 for the wage control variable.

Summary of Labor Policies	

Summary of Labor Policies	
Hiring/Firing Flexibility	Flexible.
Minimum Wage	No nationwide minimum.
Wage Controls	No.

MEANS TO IMPROVE JORDAN'S COMMERCIAL POLICY SCORE

Jordan's score of 77 places its commercial policy environment at the top of the region and within range of some of the best policy environments in the world. Policy improvements could be made in several categories where Jordan is below world standards. However, there may be instances in which scores may be difficult to improve. The Commercial Policy Model's scoring system often assigns points to policies that are rarely implemented concurrently, and as a result, countries are unable to earn full marks in every category. For example, one country may decide that it wants to facilitate investment by having corporate income tax rates at a low 10 percent. For such a country, income tax exemptions for targeted industries are not necessary. Therefore, chances are that such a country is likely to earn higher points under Tax Policies but lower points under Investment Incentives Policies. A high tax country, which is likely to have a harder time attracting investment, is likelier to have tax exemptions for investment incentives, earning higher points for Investment Incentives but not for Tax Policies.

In addition, it is important to note that the Commercial Policy Model evaluates a country's policy environment from the perspective of the investors only, while countries often have other legitimate reasons for instituting different policies. For example, a country's security concerns may override commercial concerns, requiring visitors to undergo a rigorous process for acquiring business visas. In the same way, a government may opt to keep an exchange rate overvalued for a very specific reason, such as price or currency stability. The model is not designed to gauge such conflicting but legitimate goals.

Nevertheless, there are several areas where Jordan's improving commercial policy environment still falls short of world standards and should be improved. The following section explains the reasons for Jordan's low scores in some major areas, and suggests policy alternatives that would improve Jordan's Commercial Policy Model scores.

Import Policies: Tariff Variance

A country's tariff variance is the difference between its top and minimum tariff rates. According to standard economic theory, tariff variance confuses economic signals in a country, distorting the allocation of imports from industries where high-tariff rate inputs are used to industries where low tariff inputs are used. Jordan's 40 percentile variance between its top and minimum tariff rates is high by international standards. The country's score in this variable will not improve until it drops to 10 percentile points or less. Countries with the best import policies in this respect have uniform tariff rates for all goods.

Export Policies: Export Taxes and Export Income Tax Exemptions

Export taxes constrain companies from reaching their full export potential, and while they may provide a simple way of collecting revenues, are generally detrimental to a country's overall economic performance. Although Jordan does not collect taxes on exports, enough exceptions exist to create a disincentive for exporters. The removal of fees for valuing foreign goods for re-export and of fees for goods exported to countries with which Jordan has signed protocol agreements would earn Jordan a full point on this category.

Jordan's export income tax exemption only applies to manufacturers and not to service providers with sales abroad. Given the fact that Jordan's economy is widely regarded as having a comparative advantage in services rather than manufacturing, with current service exports roughly equaling total exported goods, Jordan does not receive a full point for this category.

Foreign Investment Restrictions: Direct Investment and Expatriate Worker Restrictions

Although the areas with restrictions on foreign ownership have been significantly reduced in the recent past, non-Jordanians may still not own more than 50 percent worth of companies in construction contracting, wholesale and retail trade and commercial services, and mining. These are very large segments of the Jordanian economy, and thus constitute significant restrictions on foreign ownership. The removal of these restrictions would increase Jordan's score in this variable from 1 to 2.

Moreover, while expatriate worker restrictions may serve the legitimate purpose of encouraging Jordanian hires, especially in a high unemployment environment like that which currently exists in Jordan, such restrictions drive back potential foreign investors who want the freedom to hire anyone they so choose. Liberalizing these restrictions would raise Jordan's score to 2 on this category.

Business Start-Up Procedures

Business start-up procedures, particularly the attainment of all relevant permits necessary for a company to begin operations, are important deterrents to investment, particularly for foreigners and small and medium Jordanian enterprises. Continuing reductions in red tape, improved coordination among the ministries and a clearer delineation of all necessary steps and documentation for final approval would increase Jordan's score of 2 points out of a possible 4 for this category. A companion report further outlines some of the major problems with Jordan's business start-up procedures, assesses its impact on investment, and describes some possible approaches to tackling the issue.

Pricing/Interest Policies: Price Controls

The government of Jordan has been steadily decreasing the number of goods subject to price controls. These policy improvements are highly positive. However, significant price and import controls remain on some of the most basic commodities such as grains, meats, cement and milk products. Once these remaining controls are removed, Jordan's score on this category will improve from 1 to 2 points.

Foreign Exchange Policies: Foreign Exchange System

The Commercial Policy Model assigns Jordan a score of 0 out of 3 possible points for its foreign exchange system of pegging the dinar to the U.S. dollar. Some very good reasons exist for this peg, and monetary authorities have repeatedly expressed their determination to maintain this policy in the near future. Political uncertainty in the region can seriously affect a currency's stability, and a credible peg can significantly remove currency fluctuations. At the same time, a fixed exchange rate forces the government to practice monetary discipline, preventing inflation. Given Jordan's current economic and political conditions, fixing the JD to the U.S. dollar may indeed be in the best interest of the country.

Nevertheless, from the perspective of foreign investors, fixed exchange rate countries present significant questions regarding their long-term stability. As the Asian crisis illustrates, countries with fixed exchange systems can be seriously affected if economic and financial pressures force the government to float its currency. In Jordan, the long-term viability of the peg is tested every few months by rumors of impending monetary collapse.

In addition, supporting the pegged rate requires tight monetary policies, which in turn drive up interest rates. High borrowing costs are cited by business executives as a leading constraint to investment growth. For this reason, Jordan's score in this category will improve when at an appropriate time the Central Bank successfully moves the country out of the peg.

SUMMARY SCORES OF JORDAN'S COMMERCIAL POLICY REGIME				
Policy Category	**Raw Data**	**Score/ Possible Score**	**Raw Score* Weight**	**Final Score/ Possible Score**
Import Policies				
Mean Tariff	13.7 percent	4/4		
Tariff Variance	40 percent	0/2		
Non-Tariff Barrier	On 16.8 percent of all goods.	3/4		
Total		**7/10**	**3(4)**	**12/16**
Export Policies				
Export Taxes	Some.	.5/1		
Export Restrictions	Minimal.	2/3		
Export Income Exemption	For goods through Investment Promotion Law and Foreign Zones. None for services.	.5/1		
Duty Free Imports	Yes. Through Investment Promotion Law and Foreign Zones.	1/1		
Total		**4/6**	**3 (2)**	**6/8**
Tax Policies				
Minimum Corporate Rate	15 percentfor several significant promoted industries.	3/3		
Top Corporate Rate	35 percent for Banking/Insurance.	2/3		

SUMMARY SCORES OF JORDAN'S COMMERCIAL POLICY REGIME				
Minimum Personal Rate	5 percent on income less than JD 2,000 a year.	3/3		
Top Personal Rate	30 percent on income above JD 16,000 a year.	3/3		
Sales Tax + VAT	10 percent sales tax.	2/3		
Total		**13/15**	**4 (4)**	**16/16**
Investment Incentives				
Income Tax Holiday	Yes. Through Investment Promotion Law.	1/1		
Duty Exemptions	Yes. Through Investment Promotion Law.	1/1		
Other Incentives	Exemptions for reinvested profits, staff training, marketing research, and research and development.	2/2		
Total		**4/4**	**4 (2)**	**8/8**
Foreign Direct Investment Restrictions				
FDI Restrictions	Moderate. Cannot own more than 50 percent of construction contracting, wholesale and retail trade and commercial services, and mining.	½		
Expat Restrictions	Permits can be problematic.	½		
Differential Treatment	Moderate.	1/1		
Dispute Settlement	Law No. 16 recognizes International Center for Settlement of Disputes.	2/2		

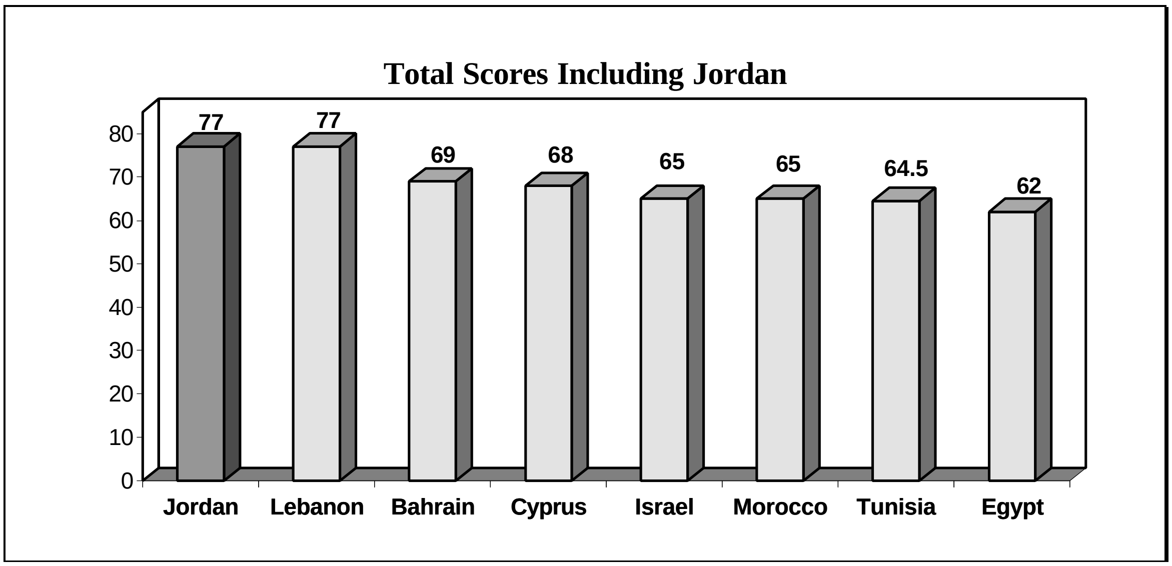
SUMMARY SCORES OF JORDAN'S COMMERCIAL POLICY REGIME				
Total		**5/7**	**3 (2)**	**6/8**
	Business Start-Up Procedures			
Business Start-Up Procedures	Several problems. Many unclear permit requirements.	2		
Total		**2/4**	**2 (2)**	**4/8**
	Pricing/Interest Policies			
Price Control	Selective. Less than 10 controlled goods remaining, most of which are staple foodstuffs.	½		
Price System	Market.	2/2		
Interest Control	No.	1/1		
Credit Allocation	Market.	2/2		
Total		**6/7**	**3 (3)**	**9/12**
	Foreign Exchange Policies			
FX System	Pegged to US$.	0/3		
FX Level	Arguably overvalued.	.5/1		
FX Restriction	Very Minimal.	2.5/3		
Profit Repatriation Restrictions	No.	2/2		
Capital Repatriation Restrictions	No.	2/2		
Total		**7/11**	**2 (4)**	**8/16**
	Labor Policies			

SUMMARY SCORES OF JORDAN'S COMMERCIAL POLICY REGIME				
Hiring/Firing Flexibility	Flexible.	2/2		
Min Wage	No nationwide minimum.	1/1		
Wage Controls	No.	1/1		
Total		**4/4**	**4 (2)**	**8/8**
OVERALL TOTAL				**77/100**

V. BENCHMARKING JORDAN IN THE MIDDLE EAST AND BEYOND

This chapter compares Jordan's commercial policy scores with those of Middle East and other countries selected by the Investment Promotion Council of Jordan and public and private sector leaders interviewed by the project team.[1] The countries were chosen as competitors or models against which Jordan can be benchmarked in terms of "policy competitiveness."

The chapter is divided into two sections. The first section presents the commercial policy scores for countries located in the region, and the second section describes the scores for other selected countries. Each section displays the commercial policy scores, provides selected country examples, describes how these countries' scores compare to those of Jordan, and provides selected



macroeconomic and cost data for Jordan and the other countries.

A. Regional Benchmarking

Overall Country Scores

[1] To obtain the information for its Commercial Policy Model, SRI consulted several primary and secondary sources using the most recent and reliable information available, within the given time constraints.

The following countries were chosen as regional benchmarks: Bahrain, Cyprus, Egypt, Israel, Lebanon, Morocco and Tunisia. The countries in this group have commercial policy scores ranging from 62 to 77 points. As one can see from the preceding chart, Jordan and Lebanon lead the group with very strong overall scores of 77. With the exception of Lebanon, Jordan's scores are significantly higher than those of other nations in the region. Jordan scores fifteen points higher than Egypt. Egypt (62 points), Tunisia (64.5 points), Israel (65 points) and Morocco (65 points) have the lowest scores among those selected for comparison. These scores place most of these countries in the middle of SRI's worldwide ranking of commercial policy scores.

Scores in the specific policy categories indicate that some commercial policies are consistent across the region while others vary greatly (see table below). Most countries have similar scores for export and pricing policies. However, other policy categories display a significant divergence in scores. For example, country scores for import, taxation and labor policies vary substantially. Jordan compares extremely favorably to its neighbors in most categories. It has one of the highest scores in five out of the nine categories: Import, investment, taxation, pricing and labor policies.

COMMERCIAL POLICY SCORES INCLUDING JORDAN

Country	Imports	Exports	Tax	Investment	Foreign Direct Inv.	Business Start-up	Pricing/ Interest Rates	Foreign Exchange	Labor	Total
Jordan	***12***	***6***	***16***	***8***	***6***	***4***	***9***	***8***	***8***	***77***
Lebanon	12	8	12	4	4	4	9	16	8	77
Bahrain	8	6	16	4	6	6	9	8	6	69
Cyprus	8	8	12	4	8	6	6	12	4	68
Israel	8	8	4	8	8	4	9	12	4	65
Morocco	8	8	4	6	8	6	9	12	4	65
Tunisia	4	8	8	6	6	8	7.5	12	5	64.5
Egypt	8	6	4	6	5	4	9	16	4	62
Average	8.50	7.25	9.50	5.75	6.38	5.25	8.44	12.00	5.38	68.44

Comparing this group's average scores with the highest possible score in each category indicates that the region as a whole has good foreign exchange, export and pricing policies (See chart below). However, these countries' import and taxation policies need further improvement. The category with the lowest average score is import policy. The low average in this category results from comparatively high tariff rates and significant non-tariff barriers in most of these nations.

The table below shows Jordan's policy scores compared to the average scores of the rest of the regional countries chosen for benchmarking. Jordan's import, taxation and labor policy scores are significantly above the other nations' average scores of 8.00, 8.57 and 5.00 respectively. Jordan's high import and tax policy scores reflect the nation's comparatively low tariff and taxation rates.

JORDAN COMPARED TO THE REST OF THE REGION

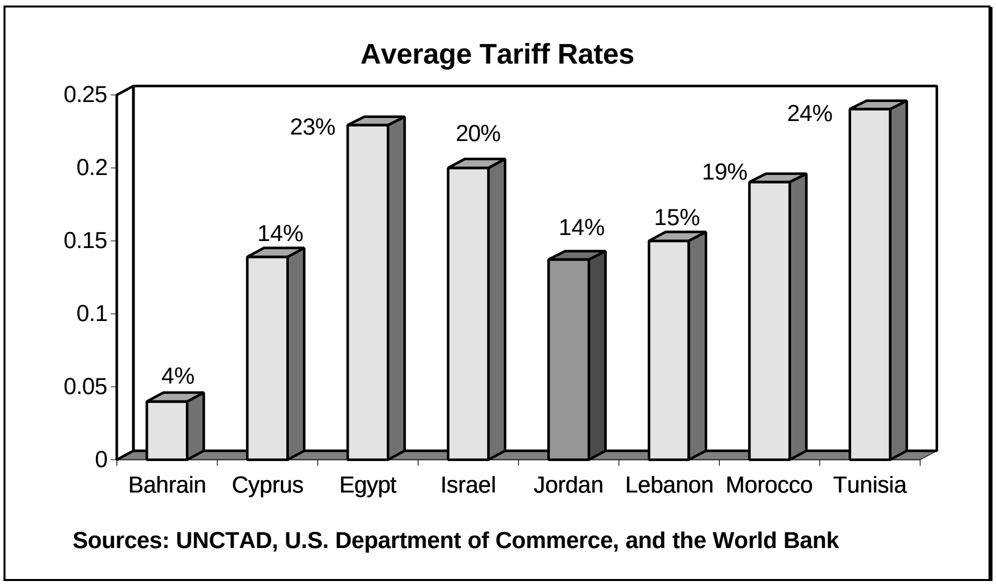
Lab F Pricir Busines F Investme Ta Expo Impo **Country**	**Imports**	**Exports**	**Tax**	**Investment**	**Foreign Direct Inv.**	**Business Start-up**	**Pricing/ Interest Rates**	**Foreign Exchange**	**Labor**	**Total**
Jordan	***12***	***6***	***16***	***8***	***6***	***4***	***9***	***8***	***8***	***77***
Regional average	8.00	7.43	8.57	5.43	6.43	5.43	8.36	12.57	5.00	67.21

Jordan earned below average scores for its business start-up and foreign exchange policies. Lack of transparency in the start-up process earned it a score under the group average of 5.43. Jordan's foreign exchange score of eight is well below the group average of 12.57, due mainly to the pegged exchange rate. The following sections discuss the scores for each category in detail.

Import Policies

Country	Jordan	Bahrain	Cyprus	Egypt	Israel	Lebanon	Morocco	Tunisia
Score	12	8	8	8	8	12	8	4

Most countries have lackluster scores in this category. The group average is only 50 percent of the possible maximum score of sixteen points. With the exception of Jordan and Lebanon, none of the countries in this group has a score above an eight. The majority of these nations have begun to implement measures designed to enhance their trade environment. Several have lowered their tariff



rates. However, the existence of high tariff variances and non-tariff barriers still earn some of them weak scores.

Morocco is a good example of a country which has made improvements in its import policies but needs to take further steps to open its economy. In 1987, Morocco joined the General Agreement on Trade and Tariffs (GATT) and began to liberalize its trade regime. Since then, it has taken several steps to improve its trade environment. In 1991, it passed a new Foreign Trade Act, lowering the average tariff rate to 19 percent. However, non-tariff barriers still exist. Although Morocco has substantially reduced the number of products needing import licences, obtaining an import license in these product categories remains a very lengthy process. Importers must obtain approval from each concerned sector authority. In addition, Morocco still maintains quotas on certain commodities. Therefore, despite the recent improvements in Moroccan economic policy, the existing non-tariff barriers -- which hamper the entry of goods into the country just as effectively as tariffs -- limit the Moroccan score in this policy category to an eight.

The average rates in all of these countries range from four percent to 24 percent. Bahrain has the lowest average tariff rate (4 percent). The variance between minimum and maximum tariff rates in all of these countries is substantial. In Bahrain, duties range from 10 to 125 percent, and in Lebanon they run from 4 to 100 percent. Lebanon still managed to earn a strong score of twelve in this category because it has few non-tariff barriers.

Export Policies

Country	Jordan	Bahrain	Cyprus	Egypt	Israel	Lebanon	Morocco	Tunisia
Score	6	6	8	6	8	8	8	8

All the countries in the group have strong scores for export policy. The group average score is 7.4. The countries' scores reflect a desire by all countries benchmarked to stimulate export growth. Most have minimal export restrictions and offer some type of tax exemption on export income and import duties. Many of them have duty free zones or export processing zones. With the exception of Egypt and Bahrain, which both received scores of six, all of the nations have perfect scores of eight in this category.

Israel's export policies are typical for this group. The country has no export taxes and very few export controls. The export controls currently in force are mainly on internationally controlled substances. Israel has a free trade zone, three free ports and several free processing zones. Companies located in these areas receive various benefits. For example, businesses located in the processing zones are exempt from direct taxation for twenty years, enjoy duty free imports and are not subject to most Israeli health and safety regulations. These policies earn Israel a perfect score of eight in this category. They have also helped Israel to maintain an average annual growth rate of eleven percent in the value of its exports from 1990 to 1995.

Cyprus also earns a perfect score. Cyprus has made export enhancement one of the pillars of its overall economic strategy. The government's export strategy aims to:

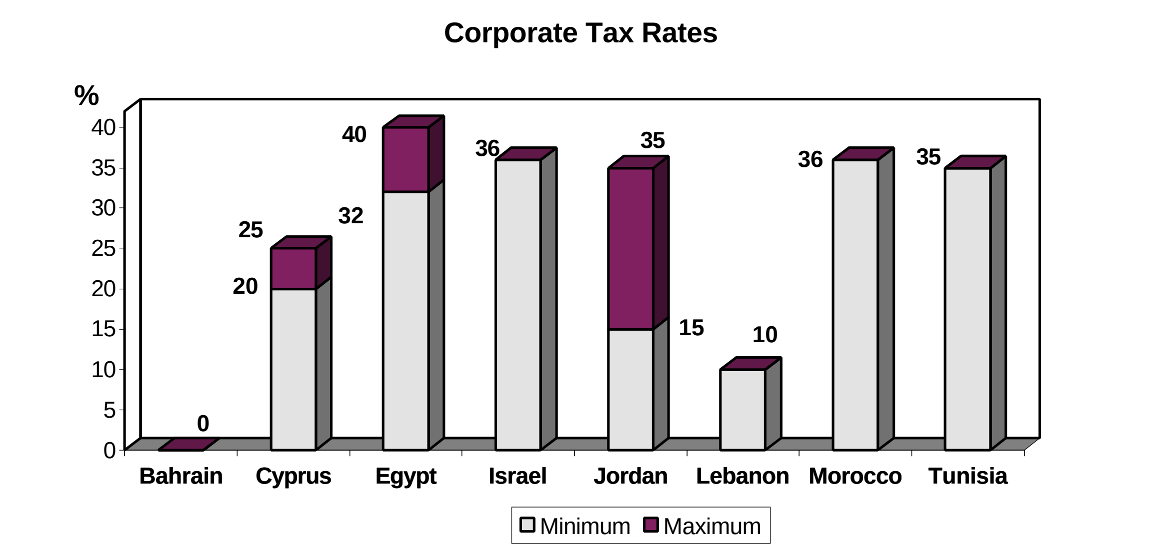
- Create and maintain an institutional structure that effectively encourages exports;
- Pursue differentiated exports and export markets;
- Encourage the production and marketing of new products;
- Focus on product quality enhancement; and
- Promote Cyprus as a services export center.

To help achieve its goals, Cyprus has created a network of exporter assistance institutions which offer a wide range of services. In addition, Cyprus has no export taxes, and minimal export restrictions. It also allows companies located in its free zones to import inputs duty free.

Tax Policies

Country	Jordan	Bahrain	Cyprus	Egypt	Israel	Lebanon	Morocco	Tunisia
Score	16	16	12	4	4	12	8	8

Scores in the tax policy category vary widely from a four to a perfect score of sixteen. The group average is 8.57. The majority of the countries in this group maintain a neutral and efficient flat corporate income tax rate. With the exception of Bahrain, which does not tax corporate profits, and



Source: Ernst & Young, Worldwide Corporate Tax, 1997

Lebanon, these flat rates are set at roughly thirty-five percent (see chart below).

Bahrain (16 points) and Lebanon (12 points) have excellent scores. Both nations possess extremely low income tax rates. Bahrain maintains a flat basic rate of zero percent for both its corporate and personal income taxes. Lebanon has a flat corporate rate of only ten percent. Its personal income tax rates range from two to ten percent.

Israel earns only four points in this category because it has high corporate and personal income tax rates. It maintains a flat corporate rate of thirty-six percent. Israeli citizens and expatriates face personal income taxes ranging from fifteen percent to as high as fifty percent. These rates, plus a Value Added Tax of seventeen percent, give Israel its low score.

Morocco's low score of four also reflects its substantial tax rates. In addition to having a corporate rate of thirty-six percent, Morocco has personal income tax rates which range from thirteen percent to forty-four percent. Its Value Added Tax is either seven or nineteen percent depending on the product involved.

Investment Incentives

Country	Jordan	Bahrain	Cyprus	Egypt	Israel	Lebanon	Morocco	Tunisia
Score	8	4	4	6	8	4	6	6

The scores in this policy category range from four to eight points. The group average is 5.43. Most countries have either four or six points. However, Israel, which has been actively seeking investors, and Jordan, which has recently introduced training, R&D and marketing incentives, earn a perfect score of eight.

The Israeli government provides investment incentives for businesses located in specific regions or in certain economic sectors, such as tourism and agriculture. Investors can also obtain loan guarantees. Israel actively promotes industrial and tourism projects which have the potential to earn large amounts of foreign exchange or provide significant new employment opportunities. In addition, the government also emphasizes improving research and development, giving grants for up to 66 percent of approved R&D expenditures. The government offers these incentives to both residents and foreign investors. Certain investors can choose from either a grant or a tax holiday of up to ten years.

Bahrain and Cyprus only earn four points in this category. Bahrain, which maintains a zero income tax rate for most corporations and hence has no need to offer income tax incentives, offers duty exemptions. However, it does not offer any other incentives. Cyprus allows for duty exemptions but does not offer an income tax holiday or rate reduction. The following table shows some of the major investment incentives offered by the countries in this group.

SELECTED INVESTMENT INCENTIVES

Country	Tax Holiday	Export Income Tax Exemption	Duty Exemptions	Accelerated Deprec.	Investment Allowance
Jordan	ü	ü	ü		
Bahrain	ü	ü	ü		
Cyprus			ü		ü
Egypt	ü	ü	ü	ü	
Israel	ü	ü	ü	ü	ü
Lebanon	ü	ü	ü		
Morocco	ü	ü	ü		
Tunisia	ü	ü	ü		

Foreign Direct Investment

Country	Jordan	Bahrain	Cyprus	Egypt	Israel	Lebanon	Morocco	Tunisia
Score	6	6	8	5	8	4	8	6

The group has a respectable average score for the foreign direct investment category of 6.43. Scores range from a perfect score of eight for both Cyprus and Morocco to a relatively low score of four for Lebanon. Cyprus and Morocco maintain standard expatriate and investment restrictions. They guarantee national treatment to foreign-owned enterprises and they are both members of the International Center for the Settlement of Investment Disputes. Most countries score near the average. Lebanon’s low score reflects its failure to sign an international dispute settlement agreement.

While all of the countries in this group want to encourage foreign investment, certain rules and regulations make their economies less hospitable to foreigners. For example, although most investments receive national treatment in these countries, the rules prohibiting ownership of land and investing in certain sectors are more restrictive than the standard rules against investing in “strategic” sectors found in other nations. In addition, this group of countries has more onerous rules concerning the employment of expatriates than other countries.

Bahrain provides an excellent example. The government allows foreigners to invest up to 100 percent in new industrial establishments. Once an investment is made, foreigners receive national treatment. Also, Bahrain is a signatory to the New York Convention on the Settlement of Investment Disputes. However, the government of Bahrain prohibits foreigners from purchasing or owning land and also limits ownership in other commercial enterprises to only 49 percent. In addition, Bahrain's expatriate employment policies also hamper foreign investors. Once very open to expatriate employment, Bahrain has begun to restrict the issuance of labor permits and has raised the costs of visa renewals, making it difficult for expatriates to get permits. These mixed policies earn Bahrain a six (the same as the group average) for this category.

Business Start-up

Country	Jordan	Bahrain	Cyprus	Egypt	Israel	Lebanon	Morocco	Tunisia
Score	4	6	6	4	4	4	6	8

The mediocre average of 5.43 in this category indicates that the majority of the nations in the region can take further steps to make their business start-up procedures simpler, more transparent and less time consuming. Tunisia is the only nation in the group to earn a perfect score of eight. All of the other countries have either four or six points.

Tunisia has worked to improve its business start up procedures and has succeeded in greatly simplifying its process. The government does not screen most foreign investments, and it has established a "one-stop-shop" to handle investments. Currently, the process for starting up a business takes about two weeks.

Three of the countries in the group, Egypt, Israel, and Lebanon, score only four points. Israel's and Lebanon's low scores are due to their approval process rather than their incorporation procedures. In both these countries, the actual incorporation of a business is relatively easy. In Israel this process usually takes only a few days. Obtaining investment approval, however, is a different matter. In both Israel and Lebanon, government bureaucracy can make obtaining approval for an investment both costly and time consuming.

During the 1990s, Egypt made a concerted effort to improve its business start-up process and has been successful in streamlining some of its investment procedures. However, roadblocks remain, especially for foreign investors. An investor must obtain approval from Egyptian authorities for all of the following activities:

- ü An increase in or repatriation of capital;
- ü An expansion or existing projects, changes in the product-mix; or
- ü The start-up of a new production line.

Securing approvals can be time consuming. In addition, existing producers require government approval before obtaining the requisite customs releases for imported goods. All of these regulations slow down investors and hence raise the cost of doing business in Egypt.

Pricing and Interest Rate Policies

Country	Jordan	Bahrain	Cyprus	Egypt	Israel	Lebanon	Morocco	Tunisia
Score	9	9	6	9	9	9	9	7.5

Most of the countries benchmarked possess good scores in this policy category. With the exception of Cyprus and Tunisia, every country has a score of nine out of a possible twelve points. The group average is 8.36.

Most of the nations in this group have limited price controls in place. Interest rates are usually market determined. In addition, credit is allocated on market terms. Cyprus and Tunisia represent the exceptions. Cyprus imposes a ceiling on interest rates. This policy earns it a low score of six. Tunisia, which has 7.5 points, has selective price controls. In addition, despite the easing of some government controls of the banking sector, a few restrictions remain. Hence, credit is not allocated completely on market terms.

Bahrain, which also scores a nine in this policy category, retains selective price controls. However, there are no controls on interest rates and credit is readily available and allocated by the market. Businesses have no difficulty in obtaining financing in Bahrain. In fact, it serves as the major financial services center of the Middle East. In April 1996, there were 19 full commercial banks, 41 representative offices, 28 investment banks, 6 foreign exchange and money brokers and 27 money-changing companies registered in Bahrain. Banks in Bahrain serve both a regional and an international clientele. They provide a complete range of financial and banking services, and there are several offshore facilities.

Foreign Exchange Policies

Country	Jordan	Bahrain	Cyprus	Egypt	Israel	Lebanon	Morocco	Tunisia
Score	8	8	12	16	12	16	12	12

With the exception of Bahrain, which only has eight out of a possible sixteen points, all of the countries score well in this category. The group average of 12.57 is extremely good and four of the countries have twelve points. Bahrain's comparatively low score reflects its pegged rate system. The country pegs its currency to the SDR. The following Table lists the countries' foreign exchange regimes.

FOREIGN EXCHANGE REGIMES

Country	Foreign Exchange System
Jordan	Pegged to US$
Bahrain	Pegged to SDR
Cyprus	Pegged to ECU Basket
Egypt	Independent Free Float
Israel	Pegged Currency Basket
Lebanon	Independent Free Float
Morocco	Pegged Currency Basket
Tunisia	Managed Floating

Source: International Monetary Fund, Exchange Arrangements, 1997.

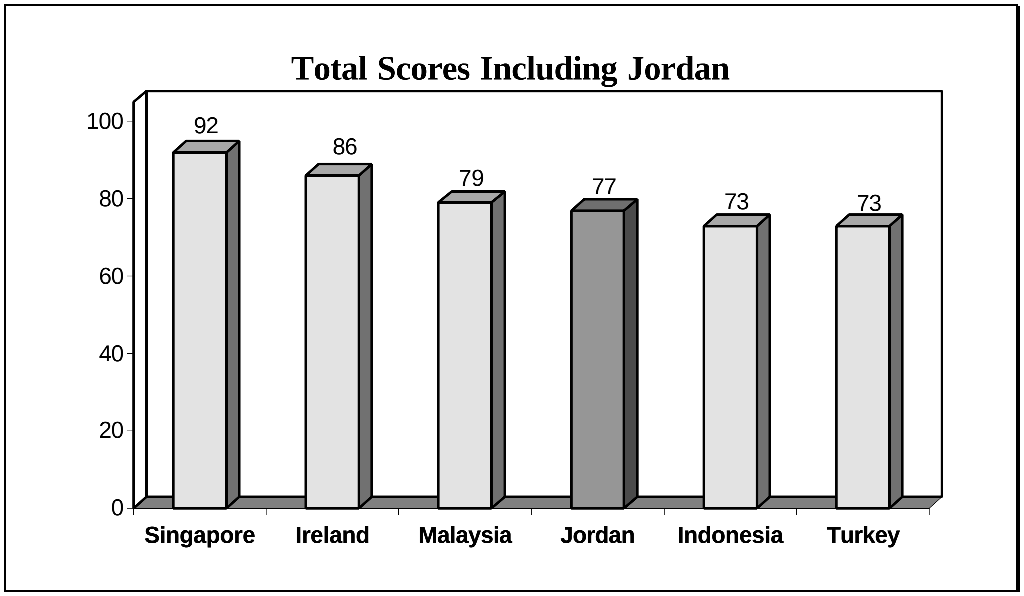
Lebanon and Egypt have perfect scores of sixteen in this policy category. Both have independent, free floating regimes. Egypt very recently went to a free market system. Both nations apply no foreign exchange controls. Lebanon has no restrictions on the repatriation of either profit or capital. Likewise, Egypt has no restrictions on profit repatriation. However, it does require approval for capital repatriation which must be made over a five year period.

Labor Policies

Country	Jordan	Bahrain	Cyprus	Egypt	Israel	Lebanon	Morocco	Tunisia
Score	8	6	4	4	4	8	4	5

Labor policy scores range from a perfect score of eight to a low score of four. The group average is 5.38. Only Jordan and Lebanon earned perfect scores. In addition to the absence of a minimum wage, Lebanon does not have any wage controls. Also, hiring and firing workers is not problematic. With the exception of Jordan and Lebanon, all of the countries in the region have a minimum wage. Most have no wage controls. However, in some of them, labor regulations make it difficult to hire and fire workers.

Morocco provides a typical example. It does not have wage controls but it does have a set



minimum wage (roughly US$ 0.85 an hour). Moreover, labor legislation makes it difficult to fire workers. These policies give Morocco four points.

B. Jordan Compared to Selected Other Countries

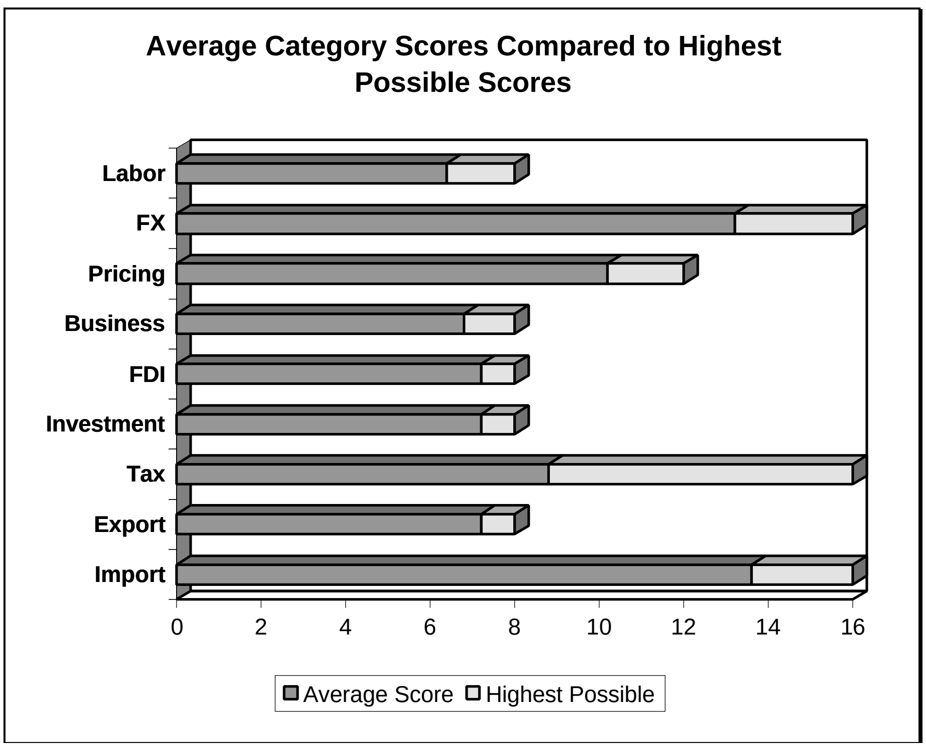
Overall Country Scores

The other countries selected for benchmarking include Indonesia, Ireland, Malaysia, Singapore and Turkey. These nations were chosen primarily as models of private sector growth. All have good overall commercial policy scores, ranging from 73 to 92 points. Indonesia and Turkey have the lowest scores. Singapore is the only country to score above 90 points. Jordan compares favorably to this group of countries. Its total commercial policy score of 77 places it just behind Malaysia and ahead of Indonesia and Turkey. However, the fifteen point spread between Singapore and Jordan indicates that Jordan's policy reform initiative is far from complete. Singapore is the top scoring country in SRI's Commercial Policy Model.

COMMERCIAL POLICY SCORES INCLUDING JORDAN

Country	Imports	Exports	Tax	Investment	Foreign Direct Inv.	Business Start-up	Pricing/ Interest Rates	Foreign Exchange	Labor	Total
Singapore	16	8	12	6	8	8	12	14	8	92
Ireland	16	8	4	8	8	8	12	16	6	86
Malaysia	12	6	12	8	6	6	9	12	8	79
Jordan	**12**	**6**	**16**	**8**	**6**	**4**	**9**	**8**	**8**	**77**
Indonesia	12	6	12	6	6	6	9	12	4	73
Turkey	12	8	4	8	8	6	9	12	6	73
Average	13.33	7.00	10.00	7.33	7.00	6.33	10.00	12.33	6.67	80.00

This group has high average scores in all of the policy categories (see chart below). The investment incentives, investment and foreign direct investment categories display the best averages for the group. The policy category with the lowest average score compared to the total possible



score is tax policy.

Jordan's import, investment, tax, and labor policies rank highly in this grouping. However, its foreign exchange and business start-up policies scores are not comparable to the other nations' scores. Jordan's score of eight for foreign exchange is substantially below the group's average of 13.20. Jordan is the only country in this group to peg its currency to the U.S. dollar. It also has a score of four in the business start-up category. This score is the lowest among the countries analyzed.

JORDAN COMPARED TO OTHER SELECTED COUNTRIES

Country	Imports	Exports	Tax	Investment	Foreign Direct Inv.	Business Start-up	Pricing/ Interest Rates	Foreign Exchange	Labor	Total
Jordan	***12***	***6***	***16***	***8***	***6***	***4***	***9***	***8***	***8***	***77***
Other Average	13.60	7.20	8.80	7.20	7.20	6.80	10.20	13.20	6.40	80.60

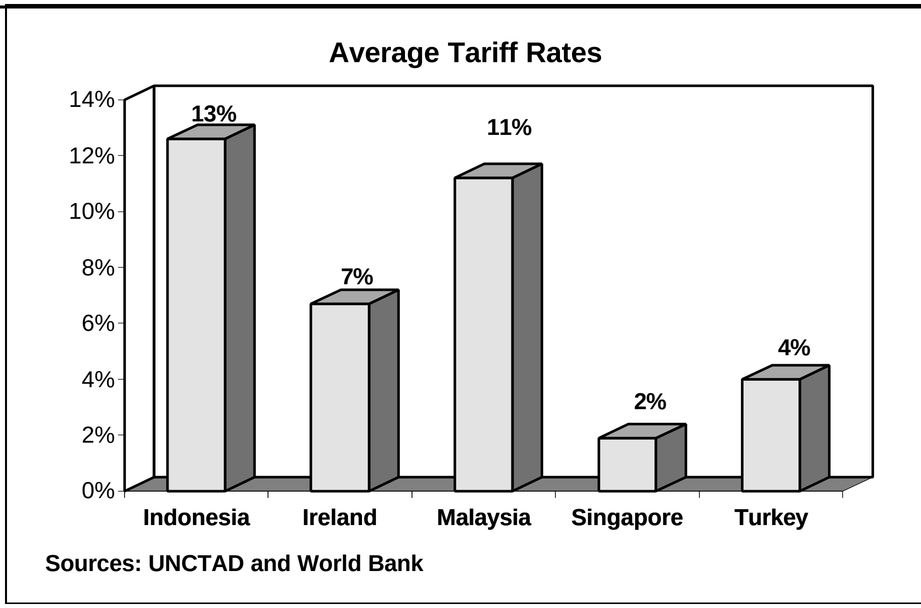
Jordan's investment and taxation policies compare well against this group of nations. Jordan's score for investment policy of eight is slightly higher than the group average of 7.2. Its tax policy score of sixteen is almost twice as much as the other countries' average.

Import Policy

Country	Jordan	Indonesia	Ireland	Malaysia	Singapore	Turkey
Score	12	12	16	12	16	12

These countries have fairly open trade regimes and therefore score well in the import policy category. All of these nations earned twelve points or more out of a possible sixteen points. The group average of 13.6 reflects their governments' efforts to lower tariffs and ease import restrictions.

Ireland and Singapore both enjoy perfect scores of sixteen. Ireland has a comparatively open economy. Irish importers face an average tariff of only seven percent (see chart below). This, plus the absence of significant non-tariff barriers, helps Ireland earn its perfect score.



Several factors give Singapore its high score for import policy. Singapore is firmly committed to an open trade and investment environment. The country's average tariff rate of two percent is exceptionally low. Moreover, Singapore allows almost 99 percent of all imports into the country duty free. It has no import quotas, negligible non-tariff barriers and does not require import licenses.

Turkey has a low average tariff but not a perfect score. Despite an average tariff rate of four percent, its non-tariff barriers are high. The government has abolished the need to obtain permission before importing most goods. However, importers of some goods, such as cars, household electronic goods, office equipment, TV and video equipment, and heaters, must still obtain an import certificate. Moreover, before a business can sell any imports, it must obtain an import certificate. Obtaining this certificate can sometimes be a significant administrative and financial burden. The presence of this and other non-tariff barriers earn Turkey twelve points.

Export Policy

Country	Jordan	Indonesia	Ireland	Malaysia	Singapore	Turkey
Score	8	6	8	6	8	8

With the exception of Jordan, Indonesia and Malaysia, all of the countries in this group have perfect scores for their export policies. A high group average of 7.2 reflects their focus on enhancing growth through exports. Most of the countries in this group have no export taxes. They also allow duty free imports and export income exemptions for exporting businesses.

Ireland has exemplary export policies. It does not impose export taxes and has minimal export restrictions. It also allows the duty free import of inputs. These policies give Ireland a high score of eight for this category. Historically an agriculturally based economy, the country has become a center for the production of advanced consumer electronics products. Ireland, which exports 80 percent of its GDP, has achieved significant export growth over the last five years. The average annual growth in the value of its exports from 1990 to 1995 was almost thirteen percent. In 1996, the country had annual export growth of over 11 percent.[2]

Malaysia provides a good example of how a country can create an export policy environment which is conducive to growth. In addition to taking advantage of regular incentives, an investor operating in an export sector in Malaysia has other benefits. These include export credit refinancing, abatement incentives, an export allowance, training incentives, and a double deduction of export credit insurance. The country has over a dozen free zones. These zones are designed for manufacturing companies which produce or assemble goods mainly for export. Malaysia's export policies have helped it to maintain solid export growth. During the period from 1990 to 1995, the value of Malaysian exports grew at an average annual rate of 20 percent.

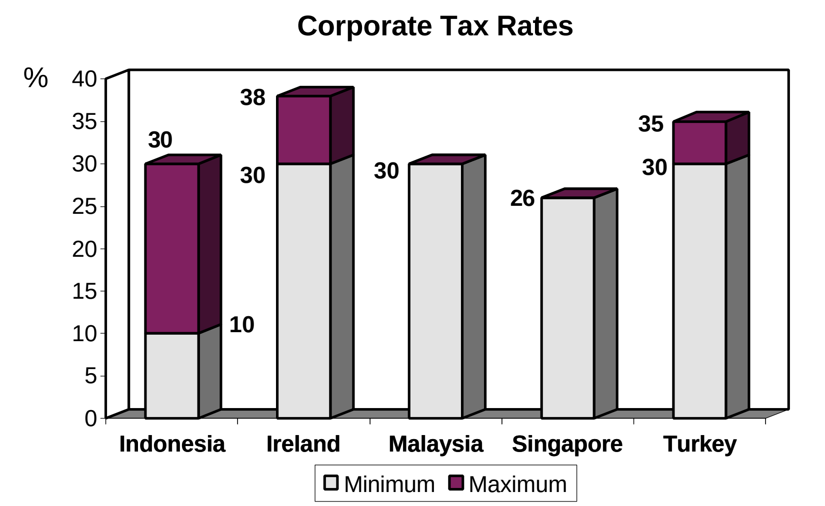
Despite all of the benefits available to exporters, Malaysia does not have a perfect score in this category. It still imposes export duties on several commodities. These commodities include petroleum, timber, rubber, palm oil and tin.

Tax Policies

Country	Jordan	Indonesia	Ireland	Malaysia	Singapore	Turkey
Score	16	12	4	12	12	4

While the group has a respectable average of nine, individual country scores for tax policy range from very low scores of four for Ireland and Turkey, to scores of twelve for the other nations. The average score is 8.8. High value-added taxes and sales tax rates account for some of the divergence in scores. However, the wide range in the tax policy scores mainly reflects the higher corporate tax rates applicable in some countries.

2 Source: World Bank, World Development Indicators, 1997.



Source: Ernst & Young, Worldwide Corporate Tax, 1997

A few countries in the group, such as Singapore and Malaysia, possess a neutral and efficient flat corporate tax rate. Singapore has a flat corporate tax rate of 26 percent. In addition to this rate, its low minimum personal tax rate of 30 percent and a VAT of two percent give Singapore a twelve for tax policy.

Other countries, such as Ireland and Turkey, have higher corporate tax rates. They use more targeted tax incentives to stimulate investment. Ireland has very high corporate tax rates. Companies in Ireland not eligible for reduced tax rates face a minimum corporate tax of 30 percent. This rate is higher than Singapore's maximum rate of 26 percent. Ireland also has high personal income tax rates, ranging from 27 to 48 percent, and a VAT of 21 percent. These high tax rates earn Ireland an extremely low score of four in this policy category.

Domestic Investment Incentives

Country	Jordan	Indonesia	Ireland	Malaysia	Singapore	Turkey
Score	8	6	8	8	6	8

All of the countries in this group offer several investment incentives and therefore score well in this category. The group average of 7.2 is high. Four of the countries in this group, Jordan, Ireland, Malaysia, and Turkey, have perfect scores of eight because they offer several different incentives. The incentives offered vary, but usually include the following:

- ü Some type of tax holiday or reduced tax rate;
- ü Customs duty exemptions; and

ü Other incentives such as accelerated depreciation.

The following table highlights the major incentives offered by these countries.

SELECTED INCENTIVES OFFERED

Country	Tax Holiday	Export Income Tax Exemption	Duty-Free Imports	Accelerated Deprec.	Investment Allowance
Jordan	ü	ü	ü		
Indonesia	ü	ü	ü		ü
Ireland	ü		ü	ü	
Malaysia	ü	ü	ü		ü
Singapore	ü	ü	ü		ü
Turkey	ü	ü	ü		ü

Tax holidays or tax reduction remains an important investment incentive tool for most of the countries in this group. Singapore provides various tax holidays to approved financial institutions, companies operating in pioneer industries, and companies involved in expanding and established enterprise. Similarly, Malaysia offers income tax holidays for promoted activities or products, as well as for project expansion and other specific investments. It also provides exemptions on customs duties as well as investment and research and development allowances. Turkey's investment incentives include exemptions on corporate and value-added taxes, and on customs fees and duties, as well as soft loans for investments in research and development.

Ireland, which has a perfect score of eight, does not offer a 100 percent tax holiday. The country's investment law gives qualifying companies a reduced tax rate of ten percent until the year 2005. This rate applies to companies operating in the following priority industries: electronics, engineering, healthcare, consumer products, financial services and international services. Ireland also exempts companies from paying import duties, permits accelerated depreciation, and provides research and development incentives.

Foreign Direct Investment Restrictions

Country	Jordan	Indonesia	Ireland	Malaysia	Singapore	Turkey
Score	6	6	8	6	8	8

Scores for the foreign direct investment category, which focuses on the treatment of foreign investors, are very good. The group average is 6.43 out of a possible eight. Three out of the five countries earned a perfect score. These high scores reflect a commitment to increasing investment, whether domestic or foreign, in these countries. Foreign investors in all of these nations usually receive equal treatment and are barred from only the standard "strategic" industries. They face little or no limits on the employment of expatriates. These countries take dispute settlement very seriously. All of these nations are members of the International Centre for the Settlement of International Disputes (ICSID) and most are signatories to the New York Convention on International Dispute Settlement.

Singapore provides a good example. Singapore has a reputation for being one of the world's most open investment regimes. It actively encourages foreign investment, especially in leading-edge technologies. The government has instituted several policies which facilitate the formation of strategic partnerships between domestic companies and multinational corporations. In 1995, foreign investments totaling US$3.4 billion accounted for roughly 71 percent of total manufacturing commitments.[3] Singapore has a perfect score of eight in the FDI category. Restrictions on foreign direct investment are minimal. When an investment is made, it receives national treatment and, when a dispute arises, the foreign company can go to ICSID for a settlement.

Turkey also provides a good example of a nation with policies designed to attract foreign direct investment. It also has an eight in this category. Since the early 1980s, Turkey has made concerted efforts to liberalize its economy. The Turkish government considers foreign direct investment to be a crucial part of the nation's economic development and has tried to increase the level of foreign investment in the country. Foreign investors receive national treatment, and almost all of the sectors open to the Turkish private sector are fully open to foreign investment. However, foreign investors still can only own up to a 49 percent share in both the aviation and maritime transportation industries.

[3] Source: U.S. Department of Commerce.

Turkey has increased the level of foreign investment in its country. In 1980, foreign direct investment as percentage of gross domestic investment was less than 0.1 percent. By 1995, this number had risen to over 2.0 percent.[4]

Business Start-up Procedures

Country	Jordan	Indonesia	Ireland	Malaysia	Singapore	Turkey
Score	4	6	8	6	8	6

With an average of 6.8, most countries score well in the business start-up category. Two countries -- Ireland and Singapore -- have perfect scores. Both nations have excellent investment agencies to assist investors in starting a business. They have transparent investment laws and simple business licensing procedures. Businesses investing in either Ireland or Singapore faces little or no red tape to slow down the process.

In Singapore, the Economic Development Board (EDB) offers a true "one-stop shop" for foreign investors. The EDB provides accurate, timely information to prospective investors and helps them to obtain the necessary business licences. The agency has received praise worldwide for helping investors navigate the start-up process and for its responsiveness to changing business needs. It is well respected for its efficiency and accuracy as well as the timeliness of its assistance.

It is well known that a "one-stop-shop" does not guarantee efficient business start up procedures. Two countries, Indonesia and Turkey, have six out of a possible eight scores despite the existence of agencies designed as one-stop-shops for investors. In both countries, the actual process for starting up a business can take longer than predicted. Indonesia's Capital Investment Coordinating Board promotes investment and approves project applications. Although the Board's role is to act as a one-stop service, investors sometimes find that they still need to spend significant time at other government agencies and regional and local authorities before they can complete their investment.

Turkey's one-stop agency is the General Directorate of Foreign Investment. In 1996, this agency was praised as one of the most successful promotion agencies in Europe. However, investors have found that despite this agency's excellent promotion skills, red tape can sometimes make the business start-up process lengthy.

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[4] Source: World Bank, World Development Indicators, 1997.

Pricing and Interest Rate Policies

Country	Jordan	Indonesia	Ireland	Malaysia	Singapore	Turkey
Score	9	9	12	9	12	9

All of the countries in this group have good scores for the pricing category. The group averages 10.2. All of these countries have either little or no price or interest controls in place. Ireland and Singapore lead the group with twelve points. In these countries, the market determines all prices, including interest rates.

SELECTED INTEREST RATES

Country	Deposit (%) 1995	Lending (%) 1995	Real (%) 1995
Ireland	0.4	6.6	-0.9
Malaysia	5.9	7.6	0.9
Singapore	3.5	6.4	0.9
Turkey	76.1	NA	-2.3

Source: World Bank, <u>World Development Indicators</u>, 1997.

Turkey, Indonesia, and Malaysia have some limited controls on prices and therefore have nine out of twelve points. Turkey has a very competitive banking system with no controls on interest rates. However, it does maintain a few official price controls on selected commodities. Moreover, the government indirectly controls other prices by setting the wholesale prices of the products of several, large state-owned enterprises. Similarly, Malaysia allows the market to determine most prices, but it does regulate prices for certain goods including: fuel, public utilities, motor vehicles, rice, flour, sugar and tobacco.

Foreign Exchange Policy

Country	Jordan	Indonesia	Ireland	Malaysia	Singapore	Turkey
Score	8	12	16	12	14	12

Foreign exchange scores range from twelve to Ireland's perfect score of sixteen. The country average is 13.2. None of these countries have a free floating system. However, the good policy scores reflect the minimal exchange and profit and capital repatriation restrictions which these countries exert. Malaysia provides a good example. Malaysia has very few exchange controls. The government allows for the free repatriation of profits as well as capital. Payments to other countries can be made in any foreign currency. However, Malaysia has a managed floating system and therefore earns only twelve out of sixteen points. The following Table lists the foreign exchange regimes of these countries.

FOREIGN EXCHANGE REGIMES

Country	Foreign Exchange System
Jordan	Pegged to US$
Indonesia	Managed Floating
Ireland	EMS
Malaysia	Managed Floating
Singapore	Managed Floating
Turkey	Managed Floating

Source: International Monetary Fund,
***Exchange Arrangements, 1997*.**

Labor Policy

Country	Jordan	Indonesia	Ireland	Malaysia	Singapore	Turkey
Score	8	4	6	8	8	6

Country scores for labor policy vary. Jordan, Malaysia and Singapore both have perfect scores of eight, while Indonesia (4 points) has the lowest score in this category. Both Malaysia and Singapore possess perfect scores because neither country has neither minimum wages or wage controls.

Indonesia has a minimum wage but does not control wages. Creating more jobs is one of the Indonesian government's key objectives. Roughly 75 percent of its 83 million workers are between the ages of 15 and 34, and 30 percent of the labor force is underemployed. Indonesia does not control wages nor does it impose any official restrictions on hiring and firing workers. However, in practice, firing workers can be problematic. Often the termination of employees results in harmful labor strikes. Since 1992, the number of these strikes has become significant. Indonesia's low score of four reflects this problem.

SOURCES

The following table lists the major primary and secondary sources used to score the countries in this section.

Primary Sources for Commercial Policy Scoring:

UNCTAD, Handbook of Trade Control Measures, 1997
U.S. Department of Commerce, Country Commercial Guides.
U.S. International Trade Administration, Foreign Trade Barriers, 1997.
International Monetary Fund, Exchange Arrangements, 1997.
Ernst and Young, Doing Business Around the World, and
Corporate Income Taxes, 1997.
World Bank, World Development Indicators, 1997.

Secondary Sources for Commercial Policy Scoring:

Johnson and Sheehy, 1996 Index of Economic Freedom.
Industrial Development Authority of Lebanon
Industrial Development Authority of Ireland
Singapore Economic Development Board
Selected SRI Reports

VI. BENCHMARKING JORDAN AGAINST REGIONAL NATIONS

This chapter benchmarks Jordan against the Middle Eastern countries scored for comparison purposes. It consists of a series of charts comparing the countries across a variety of economic and financial data. Together, these charts give a good picture of Jordan's economic performance and competitiveness vis-a-vis the other countries. The first five charts focus on Jordan's and the other nations' economic performance.[1] They include the following growth indicators:

- GDP Growth,
- Per Capita GNP,
- Export Growth,
- Industrial Growth, and
- Investment Growth.

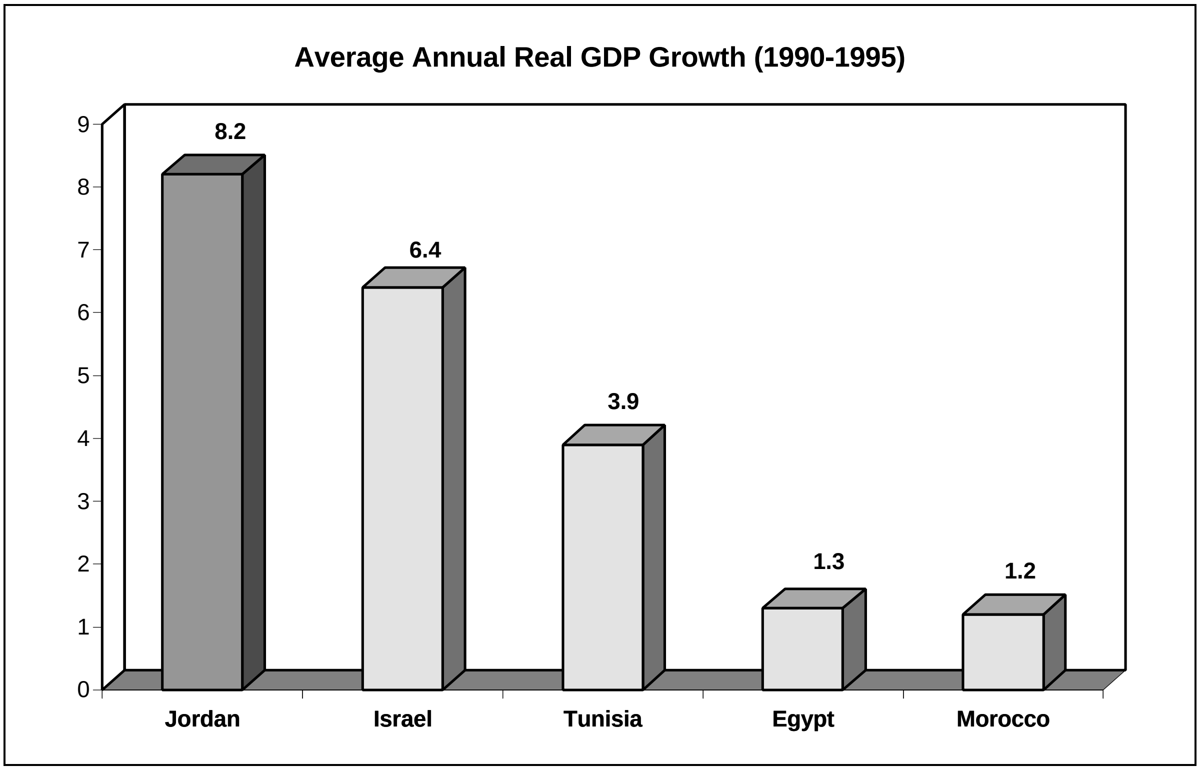
The last charts seek to compare Jordan's "competitiveness" with the other countries. They contain several macroeconomic measurements (exports, foreign direct investment, inflation, population, domestic credit) and cost variables (interest rates, phone rates). Some of the charts show other comparative variables (bond ratings, country risk, political risk). While such comparative variables are not precise or complete measurements, they do provide an indication of how a country's compares with other nations as an investment site.

Economic Performance

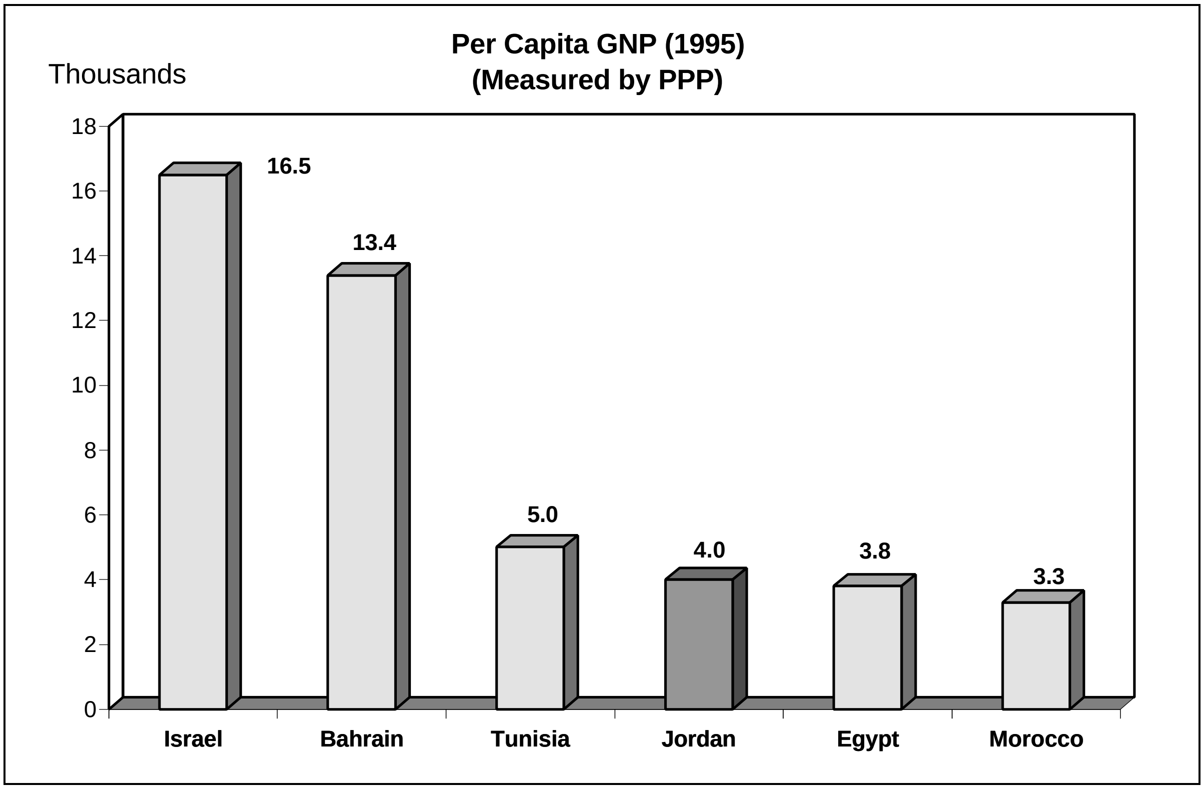
During the first half of the decade, Jordan's economy performed better than the majority of its neighbors. The first few charts show that Jordan had higher GDP, industry and domestic investment growth than most of the other countries. Jordan's inflation rate also compares favorably with its neighbors.

[1] Comparative data for all of the countries for all of the variables is not available. Therefore, some charts do not include all of the countries.

GDP Growth: Jordan's annual real GDP growth averaged a very strong 8.2 percent from 1990 to 1995. This growth rate surpasses the rates of all of the other countries. Israel had the second highest GDP growth rates, averaging 6.4 percent a year. This is significantly greater than Morocco which had average growth rates of 1.2 percent.

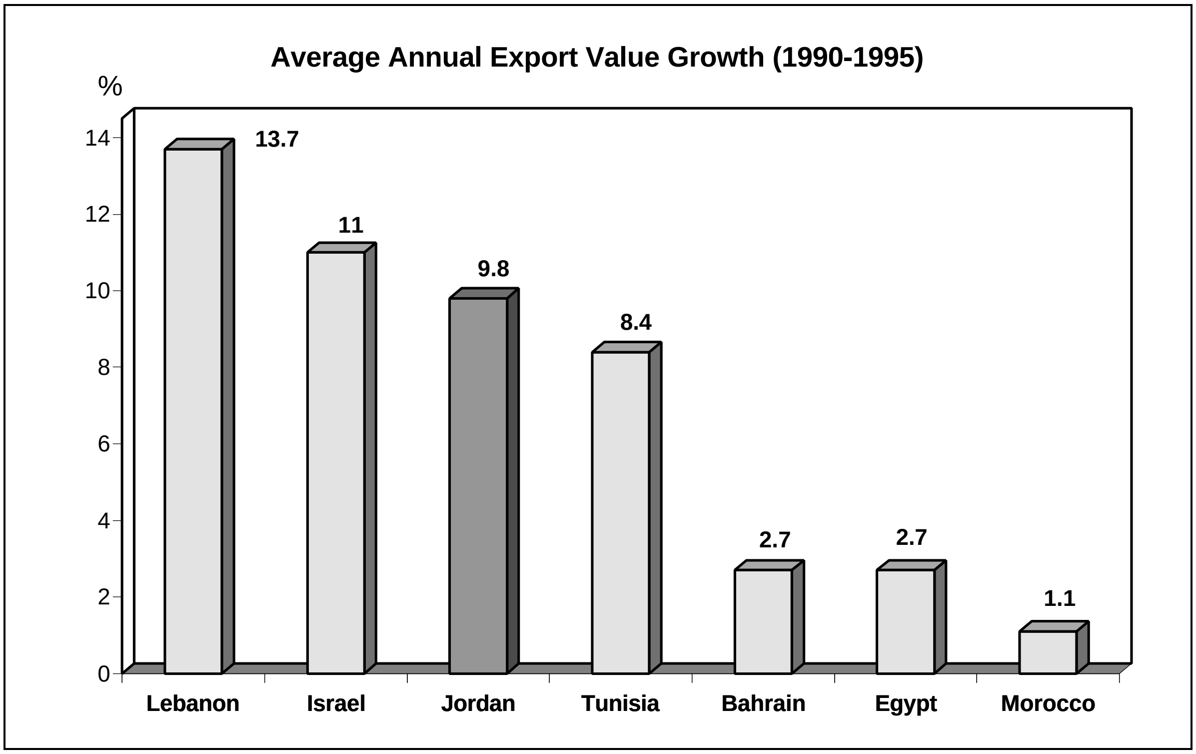


Per Capita GNP: An examination of the region's per capita GNP (measured using purchasing power parity) shows Jordan in the middle of the group. In 1995, Jordan had a GNP per capita of US$4,000. Jordan's standard of living is not as high as Israel and Bahrain, but compares favorably with other countries in the region such as Tunisia, Egypt and



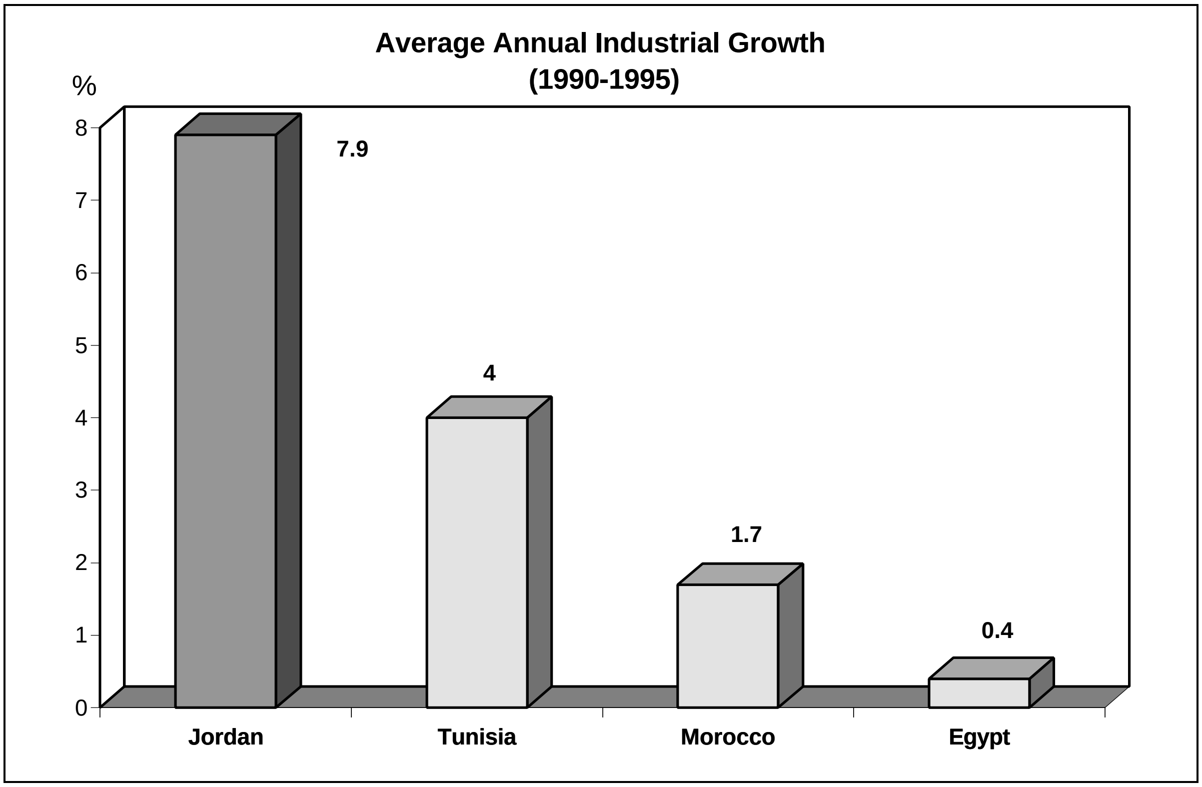
Morocco.

Export Growth: During 1990 to 1995, the value of Jordan's exports grew an average of 9.8 percent a year. This places Jordan in the middle of the group for this indicator. Lebanon and Israel had slightly higher growth rates of 13.7 and 11.0 percent respectively. Tunisia also

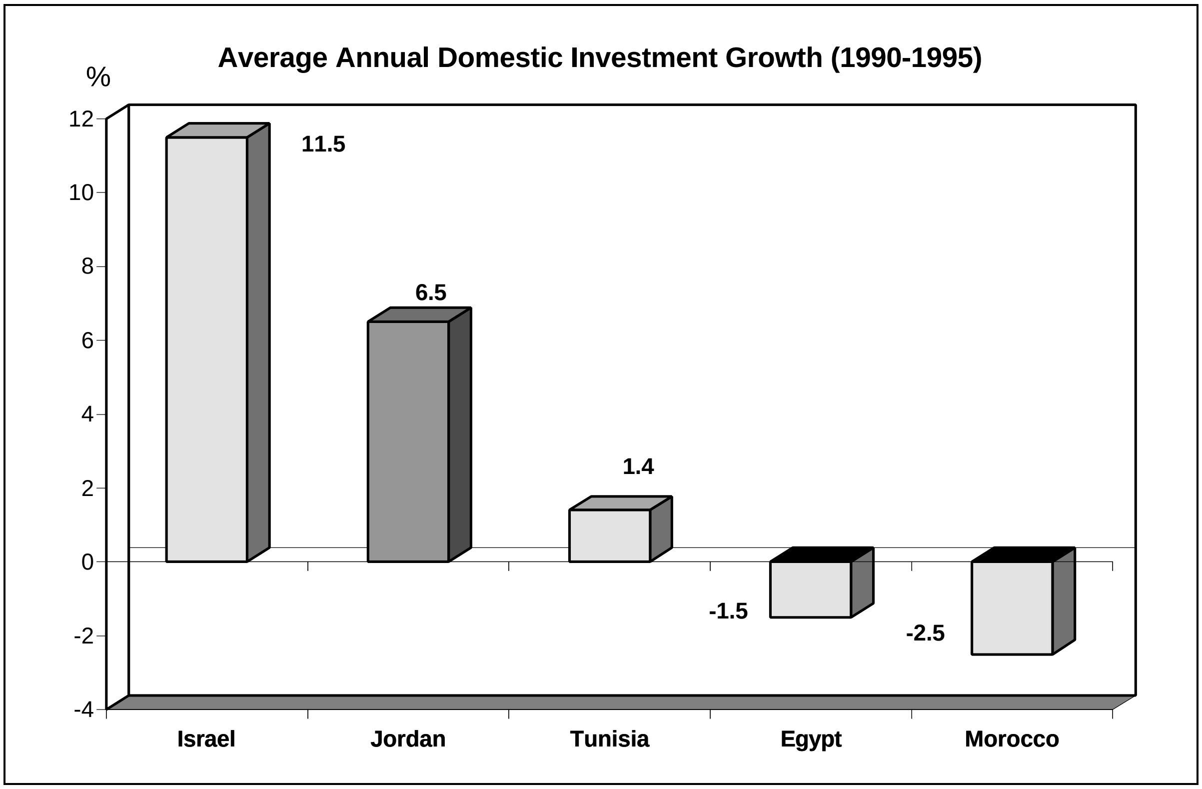


witnessed solid export growth of 8.4 percent annually.

Industrial Growth: Compared with the other three countries in the chart, Jordan had outstanding growth in its industrial sector from 1990 to 1995, averaging 7.9 percent a year. This rate is much higher than Tunisia (4.0%), Morocco (1.7%) and Egypt (0.4%).



Investment Growth: Jordan has witnessed solid investment growth. The country's domestic investment grew an average annual rate of 6.5 percent from 1990 to 1995. Only Israel has a higher average, reaching 11.5 percent a year. Jordan's investment growth rate compares very favorably with some of the other countries in the region which had either little or negative growth. Morocco (-2.5%) and Egypt (-1.5%) both experienced negative investment

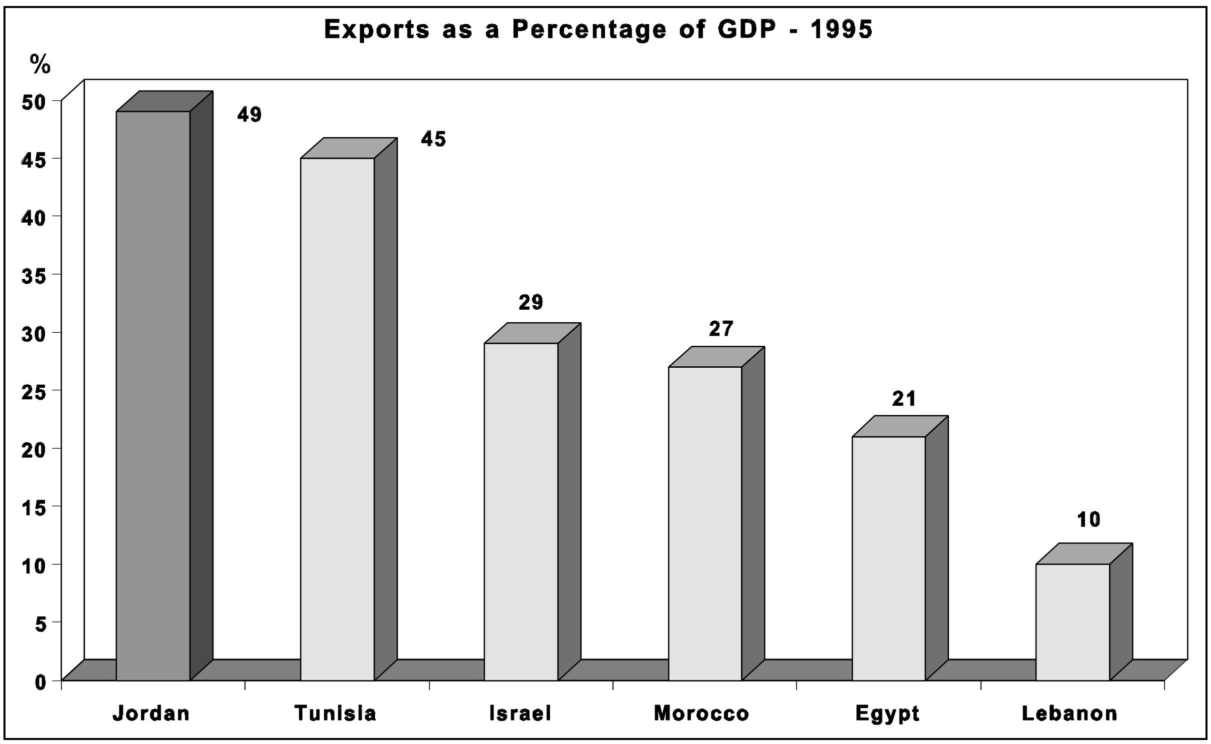


growth during the period.

Competitiveness

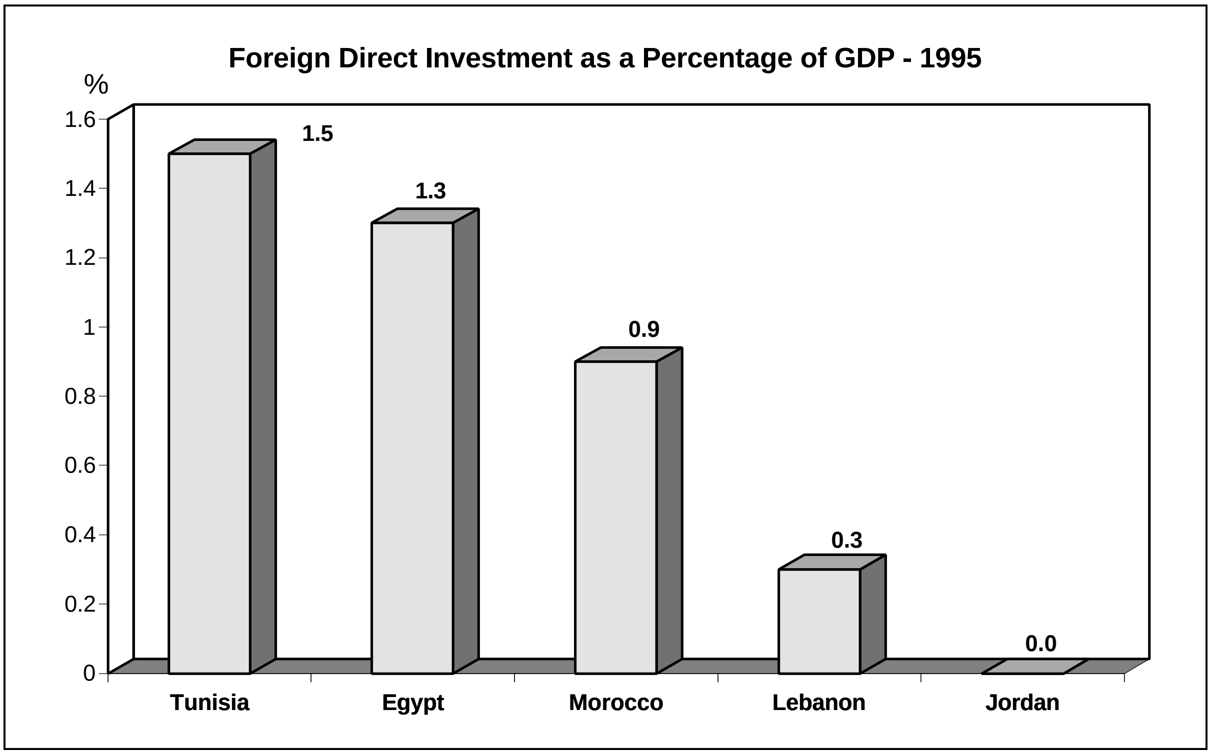
Benchmarking Jordan using competitiveness indicators produces mixed results. For some variables, such as exports as a percentage of GDP, Jordan compares well. For cost and other comparative variables, Jordan does not compare as favorably. For example, Jordan has one of the lowest foreign direct investment to GDP ratios in the region.

Exports as a Percentage of GDP: This variable is often used to measure the openness of a country's economy. Jordan is one of the most open countries in the region. In 1995, its exports as a percentage of GDP were 49 percent. This is a much higher percentage than



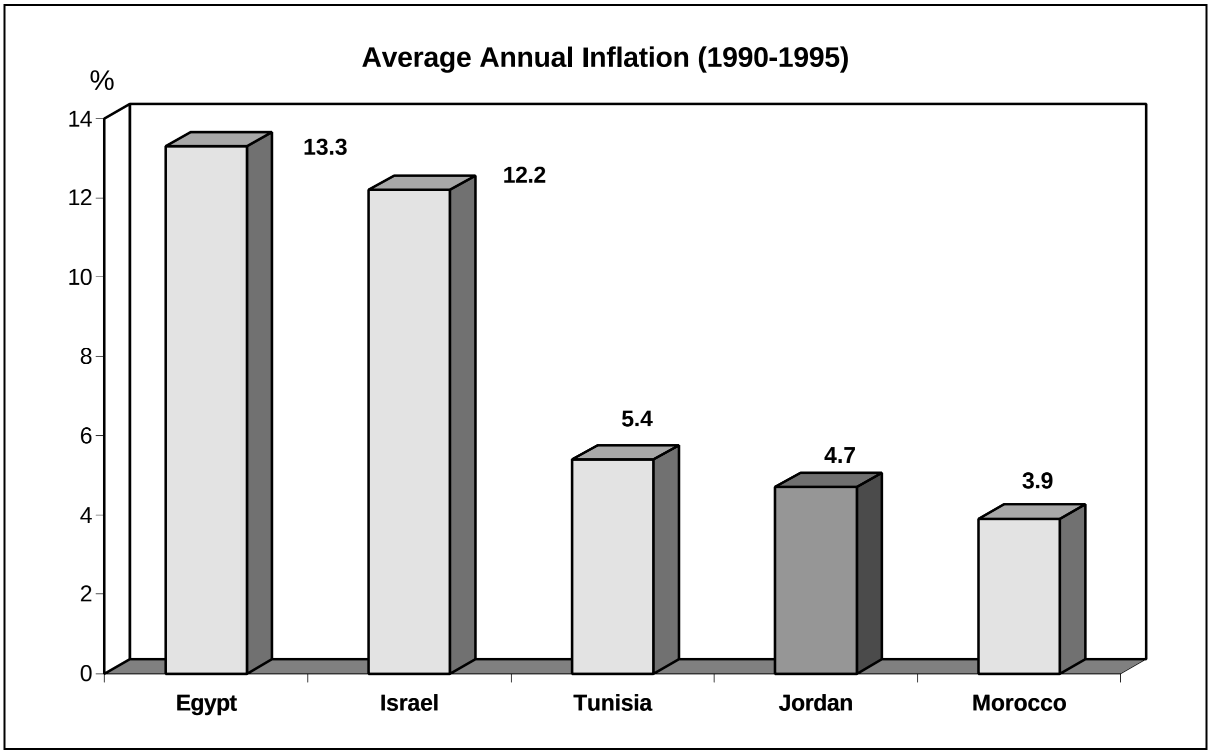
Lebanon, where exports were only 10 percent of GDP.

Foreign Direct Investment as a Percentage of GDP: Jordan's ability to attract foreign investment has not been as strong as those of other nations in the region. The chart comparing foreign direct investment as a percentage of GDP in 1995, shows Jordan with the lowest percentage of 0.0 percent. Clearly, significant potential for increasing foreign direct investment exists. Tunisia (1.5%) and Egypt (1.3%) have the highest percentages, although



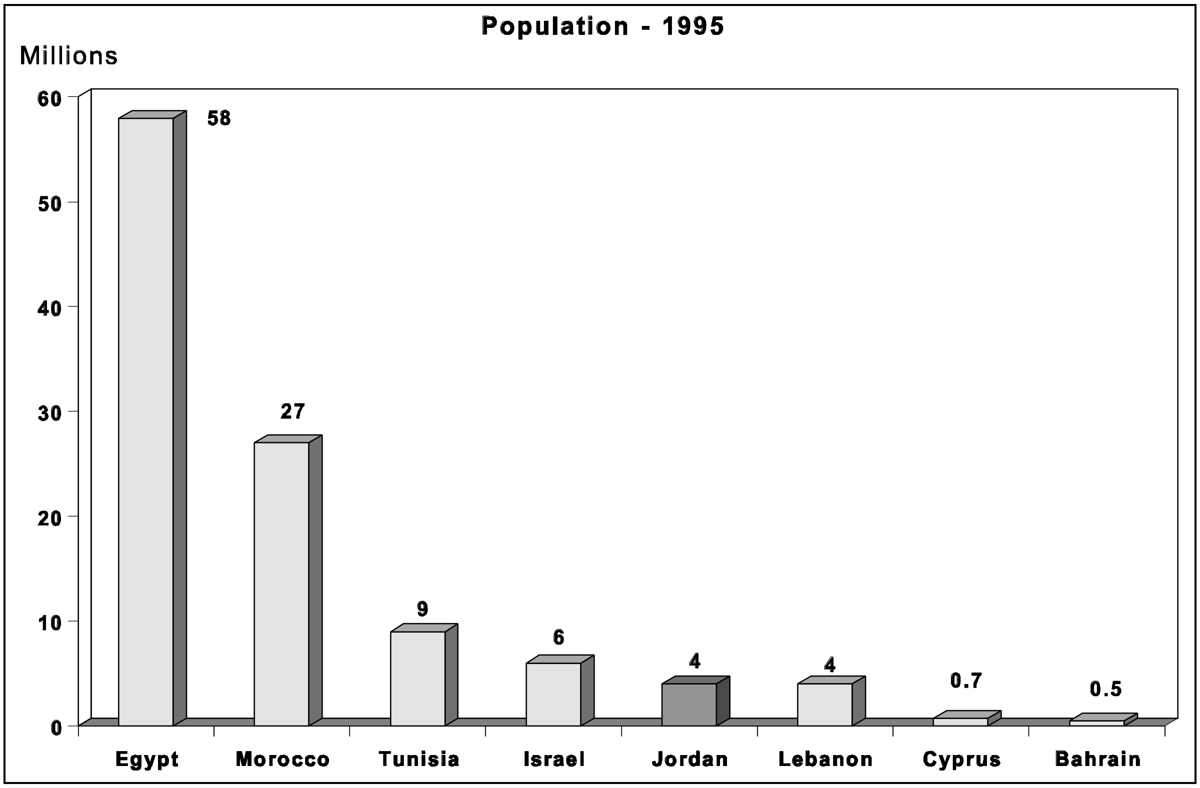
these levels are not very large.

Inflation: Egypt's (13.3%) and Israel's (12.2%) average annual inflation rates during 1990 to 1995 were significantly higher than Jordan's rate. Jordan had an average inflation rate of



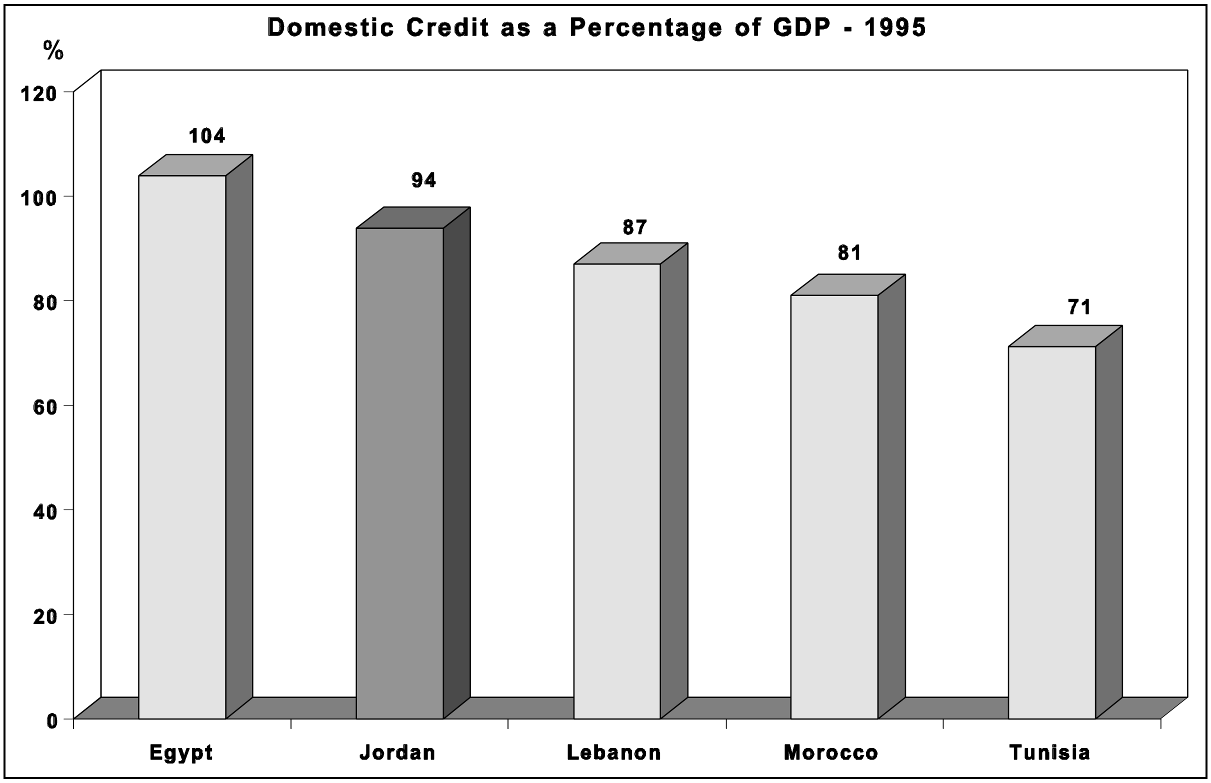
4.7 percent. This rate is one of the lowest in the region for this period.

Population: Jordan, a small nation, is roughly the same size as Lebanon. Only Bahrain and Cyprus are smaller. All of these countries are tiny compared to the largest country in the



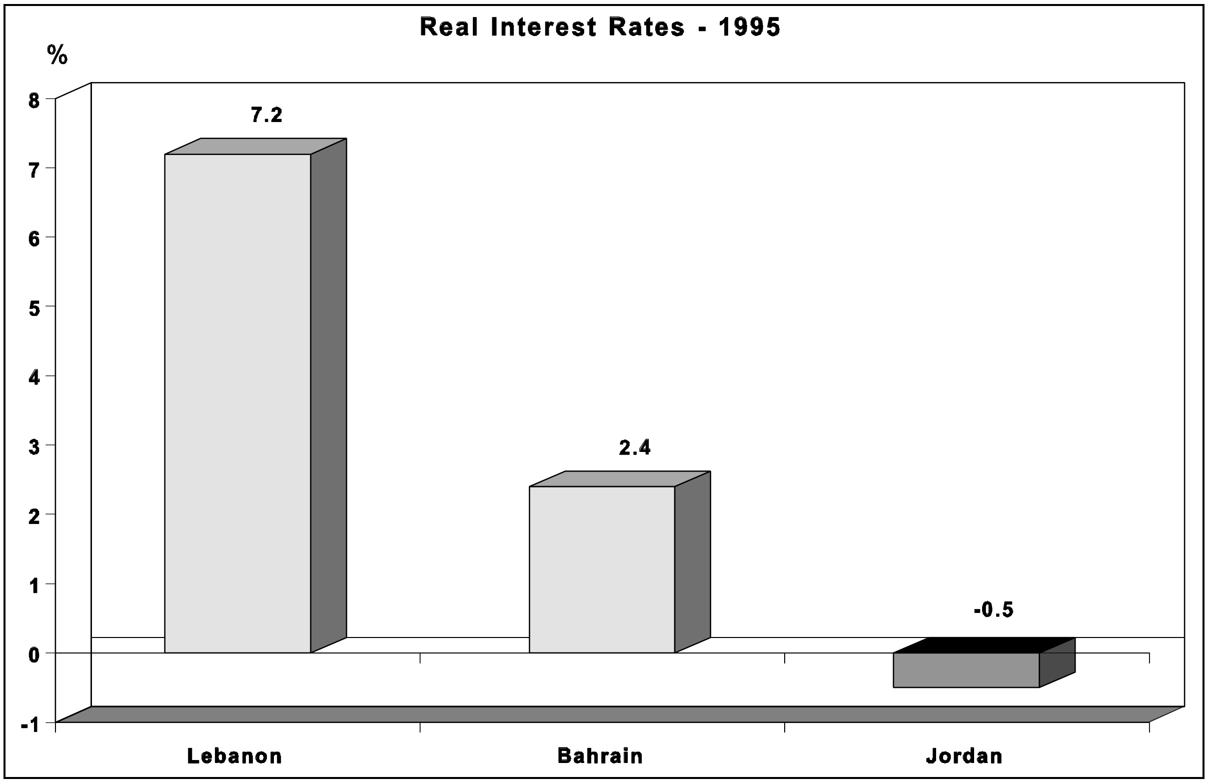
region, Egypt.

Domestic Credit: Jordan's domestic credit was 94 percent of GDP in 1995. Only Egypt



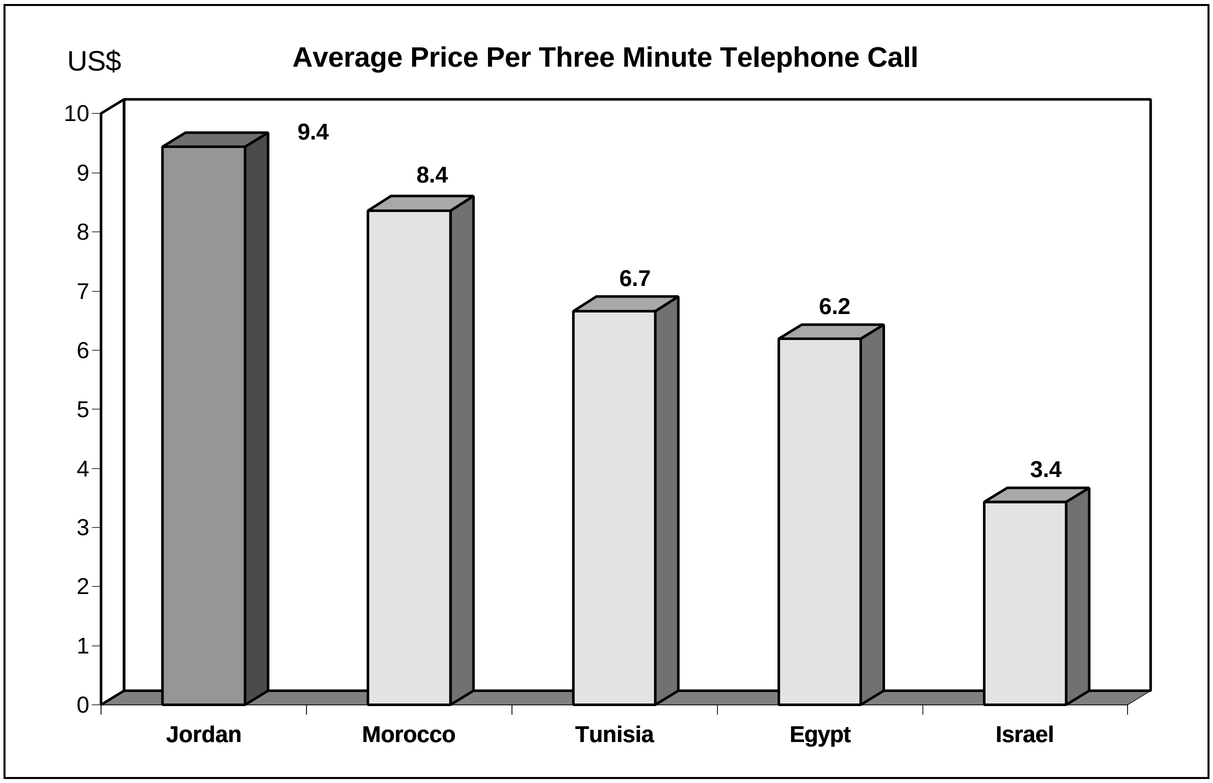
(104%) has a higher percentage. Tunisia (71%) has the lowest percentage.

Interest Rates: Information on real interest rates for the countries in the region is scarce. Of the countries for which SRI found reliable data for 1995, Jordan has the lowest real interest



rate of -0.5 percent. Lebanon (7.2%) has the highest.

Telephone Rates: The average price of a three minute phone call in Jordan is one of the highest in the region. In Jordan, this call costs 9.4 U.S. dollars. In Egypt, the same phone



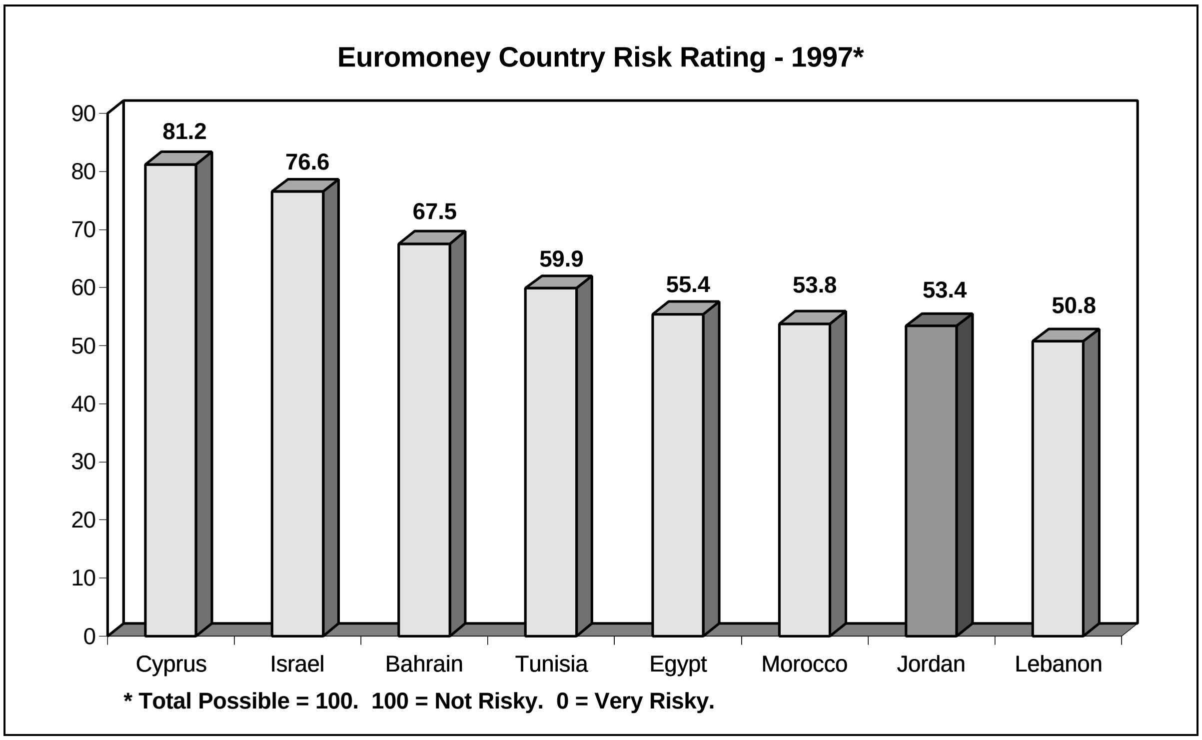
call would cost 6.2 dollars. While in Israel it would cost even less: 3.4 dollars.

Bond Ratings: Lack of bond rating information for most of the countries in the Region make a comparison difficult. Of the nations for which SRI has data, Jordan has the lowest bond rating. Israel has a rating of A-. Jordan's rating is only a B-. This low rating will increase Jordan's cost of debt, making it harder or more expensive for the government to raise capital.

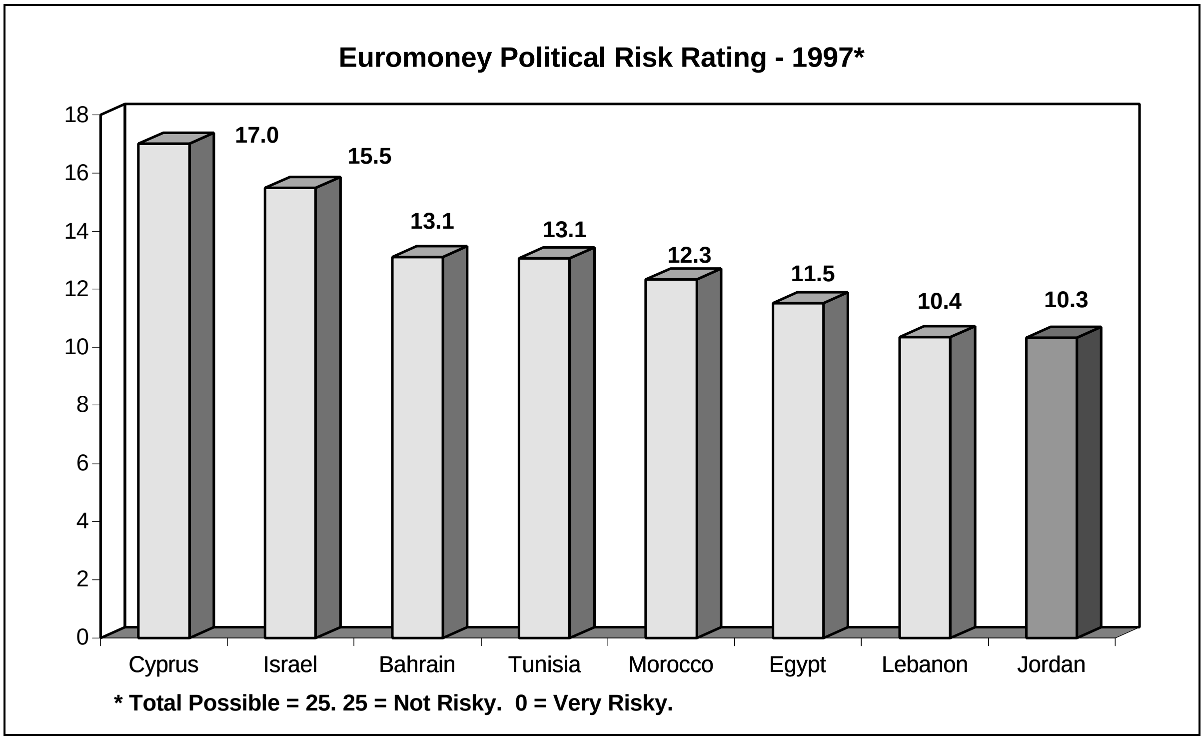
LONG TERM SOVEREIGN BOND RATING 1996

Country	Long Term Bond Rating
Israel	A-
Jordan	**B-**

Country and Political Risk: SRI has included risk indicators in the comparison because such indicators are used extensively by multinational companies. As a country's risk increases, a company will require greater projected economic returns before choosing to invest in the country. Euromoney's 1997 rankings of countries by overall risk and political risk place Jordan at the bottom of the region for both indicators. Jordan's score for country risk is only 53.4 out of a possible 100 points. This score places Jordan ahead of only one nation: Lebanon (50.8). Jordan's political risk ranking is even lower. A score of 10.3 out of a



possible 25 points places it dead last in the region.



In summary, compared to other nations in the Middle East, Jordan's policies have enabled it to excel in key growth areas including industry and domestic investment. This performance, coupled with a low inflation rate have helped to fuel Jordan's impressive annual GDP growth rates. However, in other areas, such as country risk and foreign direct investment, the charts indicate substantial room for improvement.

VII. BENCHMARKING JORDAN AGAINST NON-REGIONAL NATIONS

This chapter benchmarks Jordan against the non-Middle Eastern countries scored for commercial policies. As in the preceding chapter, it consists of a series of charts comparing the countries across a variety of economic and financial data. Together, these charts give a reasonable picture of Jordan's economic performance and competitiveness vis-a-vis the other countries. The first five charts focus on Jordan's and the other nations' economic performance.[1] They include the following growth indicators:

- GDP Growth,
- Per Capita GNP,
- Export Growth,
- Industrial Growth, and
- Investment Growth.

The last charts seek to compare Jordan's "competitiveness" with the other countries. They contain several macroeconomic measurements (exports, foreign direct investment, inflation, population, domestic credit) and cost variables (interest rates, phone rates). Some of the charts show other comparative variables (bond ratings, country risk, political risk). While such comparative variables are not precise or complete measurements, they do provide an indication of how a country's compares with other nations as an investment site.

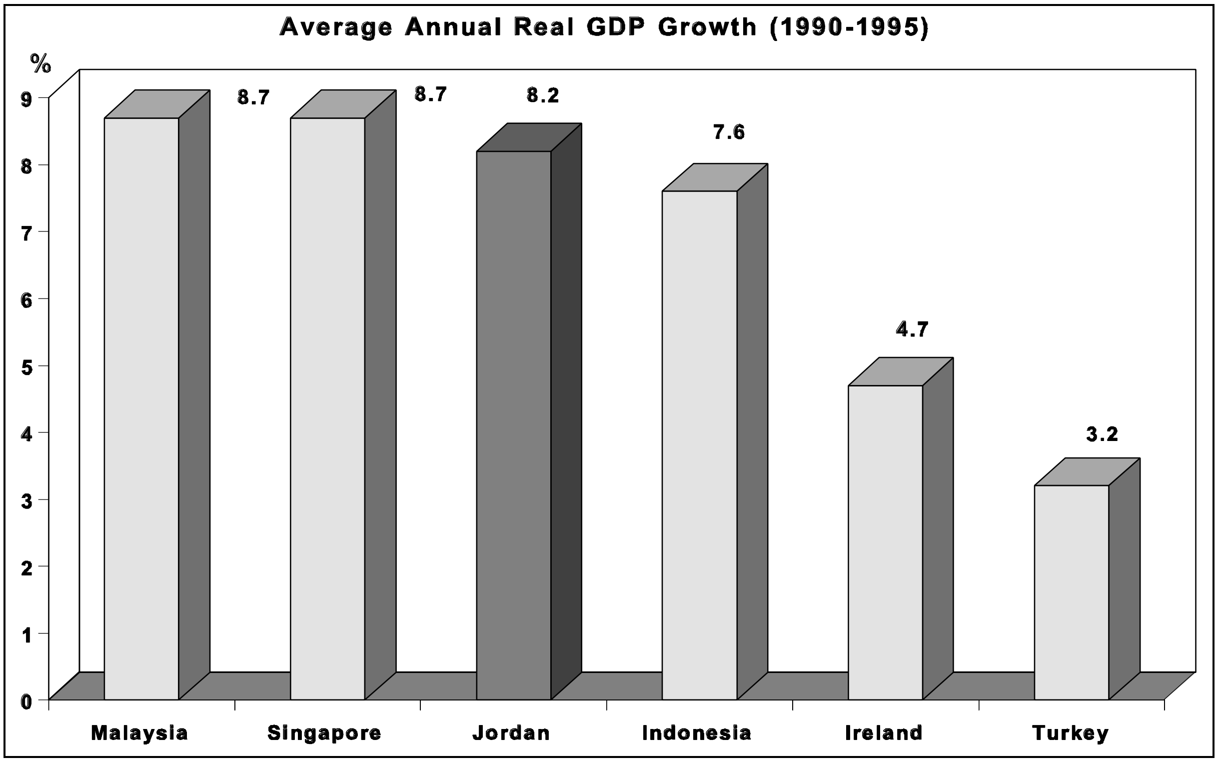
While its growth has not been as high as some of the countries in the group, Jordan's economic performance puts it in the middle of these group of countries for a substantial number of the performance indicators. As a place for doing business, Jordan lags significantly behind most of the nations in this group.

Economic Performance

While its growth has not been as high as some of the countries in the group, Jordan's economic performance puts it in the middle of these group of countries for a substantial number of the performance indicators. As a place for doing business, Jordan lags significantly behind most of the nations in this group.

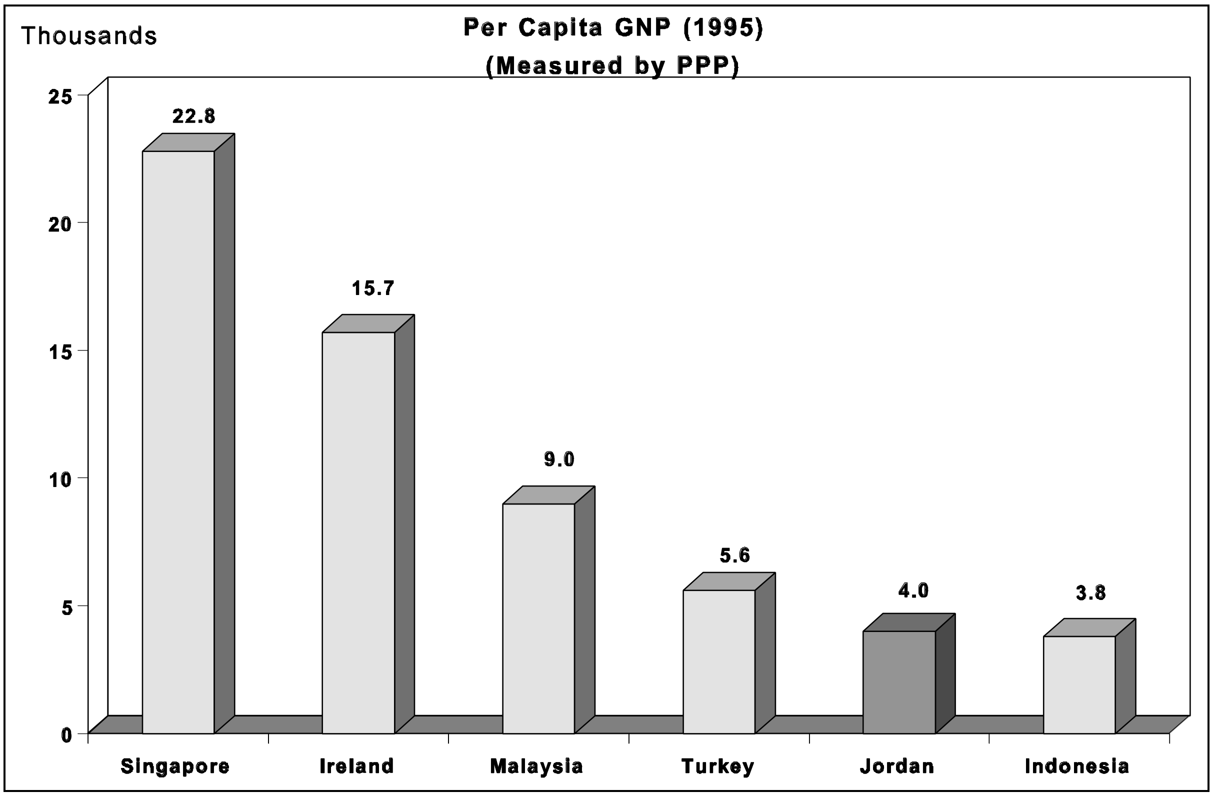
[1] Comparative data for all of the countries for all of the variables is not available. Therefore, some charts do not include all of the countries.

GDP Growth: Jordan's annual real GDP growth averaged 8.2 percent from 1990 to 1995. This growth rate is very close to the rates achieved by Malaysia and Singapore during the same period. Both of these nations experienced average annual real GDP growth of roughly



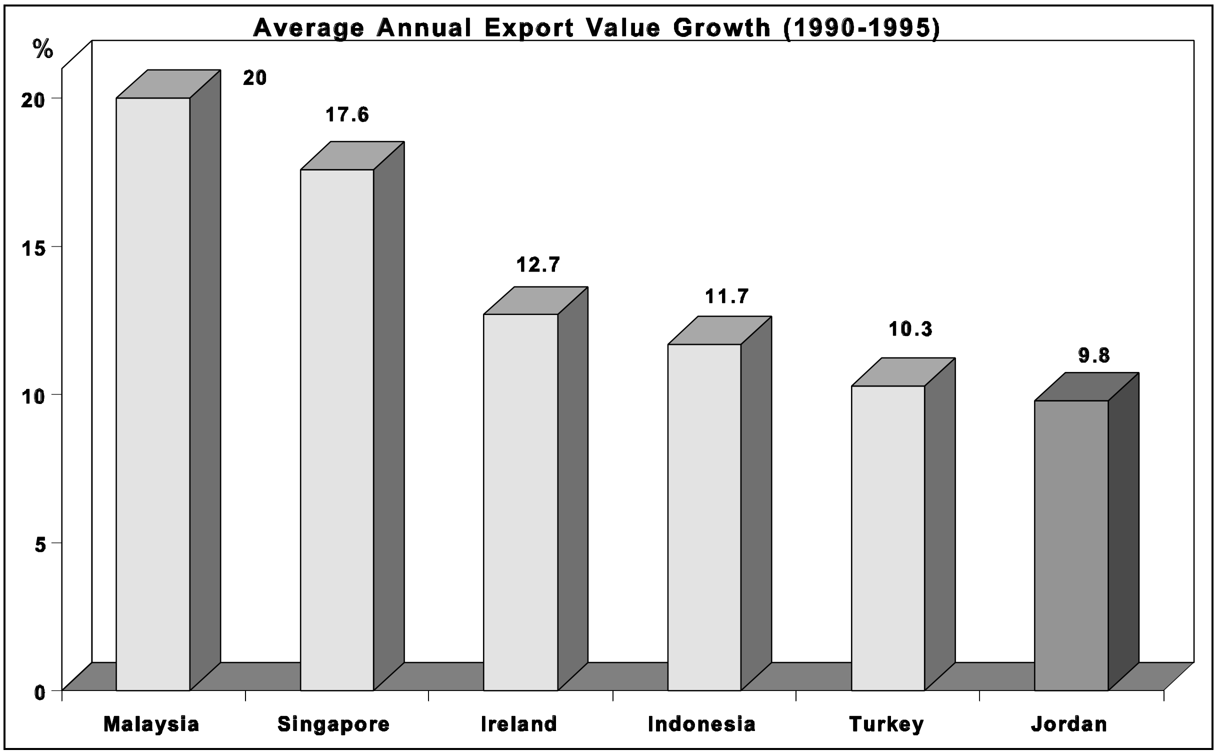
8.7 percent. Jordan's growth rate for the period was significantly higher than Turkey which had 3.2 percent average annual GDP growth.

Per Capita GNP: This group of nations has a wide range of income levels. Per capita GNP in Singapore is US$22,800, while in Indonesia, it is only US$3,800. Jordan's standard of



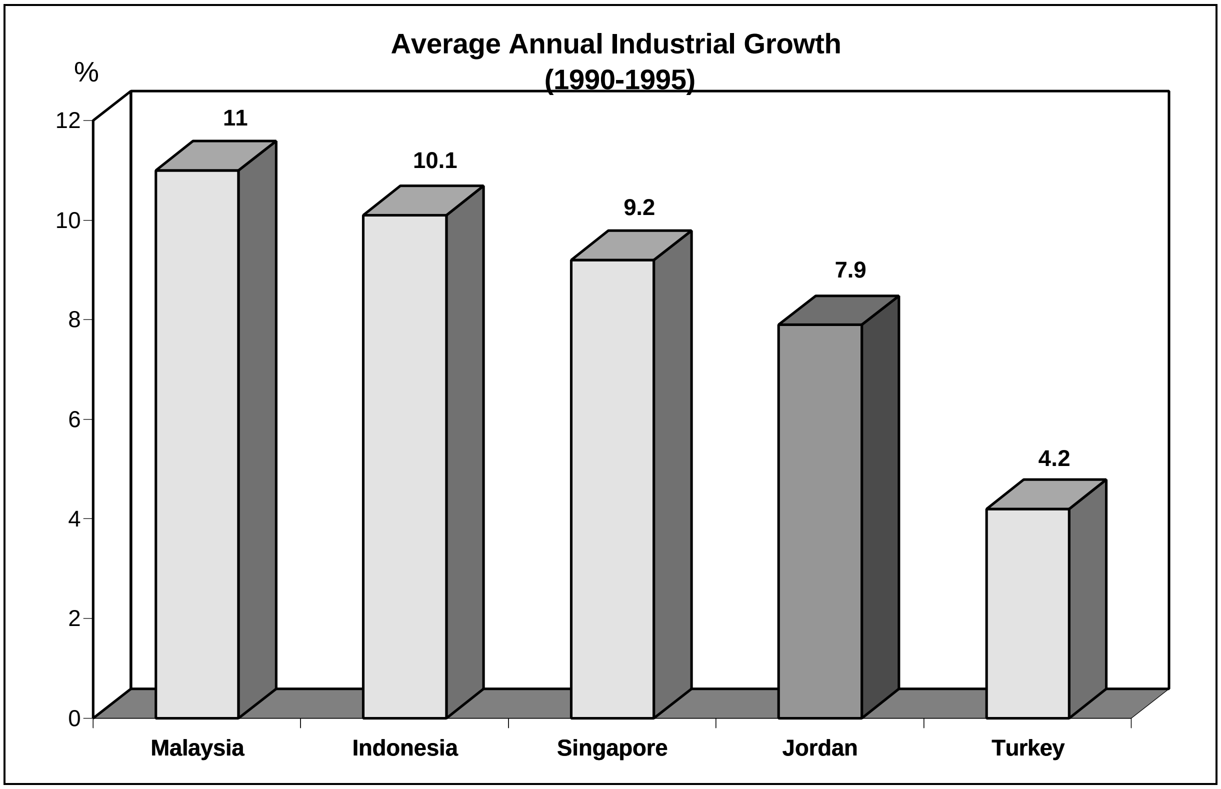
living is significantly lower than in Singapore, Ireland, and Malaysia. However, its GNP per capita of US$4,000 is comparable to Turkey and Indonesia.

Export Growth: Malaysia and Singapore have achieved extremely good export growth during the last decade. These two nations had average annual growth in the value of their exports of over 15% during 1990 to 1995. Jordan's average export value growth was roughly 9.8 percent a year. This rate is slightly lower than Turkey's export growth of 10.3



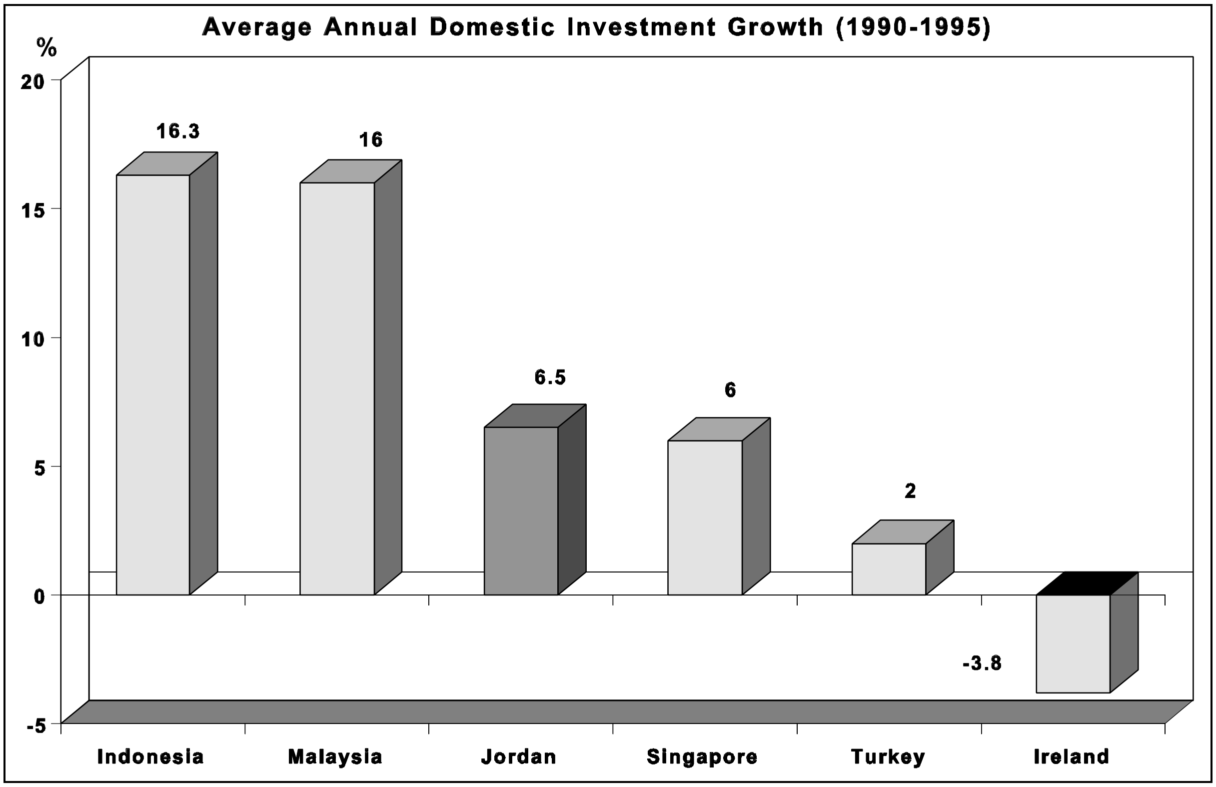
percent, and is the lowest growth rate in this sample.

Industrial Growth: Jordan's industrial sector growth of 7.9 percent per year compares favorably with the rest of the nations in this group. While not as high as Malaysia (11.0%) or Indonesia (10.1%), Jordan's industrial sector growth is substantially higher than Turkey



(4.2%).

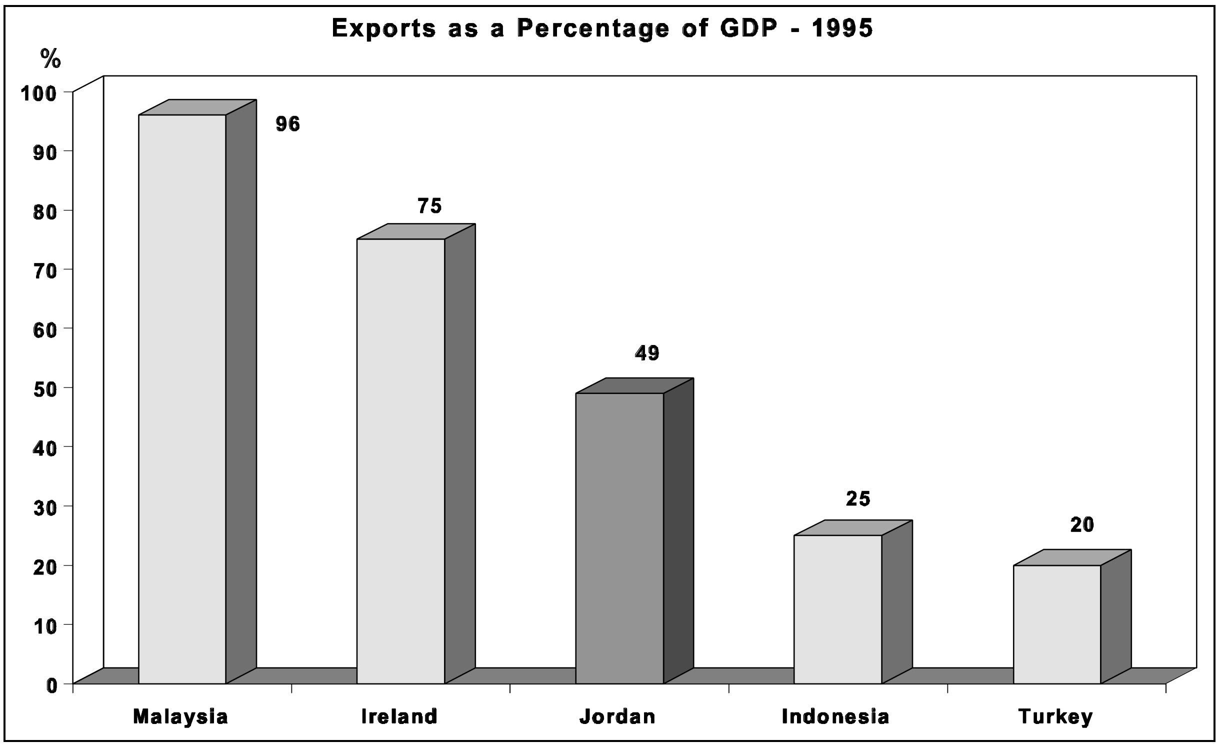
Investment Growth: While Indonesia and Malaysia, with average annual growth rates of roughly 16 percent, had significantly higher growth rates, Jordan's domestic investment grew at a greater rate than Turkey (2.0%) and Ireland (-3.8%). Jordan's domestic investment grew an average annual rate of 6.5 percent from 1990 to 1995. This rate approximates Singapore's



investment growth rate.

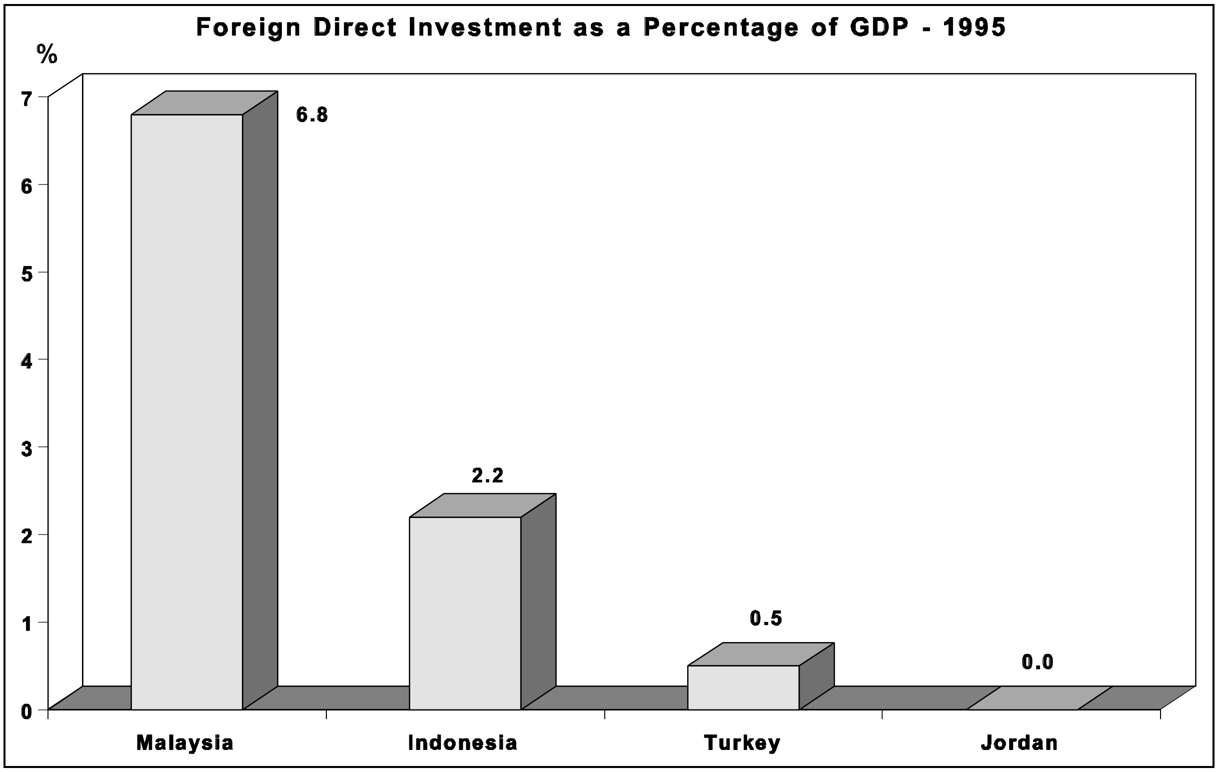
Competitiveness

Exports as a Percentage of GDP: As mentioned earlier, exports as a percentage of GDP serves as a good indicator of a country's degree of openness or inter-relation with the global economy. Jordan, which has exports as a percentage of GDP of 49 percent, falls in the middle of this group. This percentage is much lower than that of Malaysia where exports were 96 percent of the country's GDP. However, Jordan is more open than Indonesia and



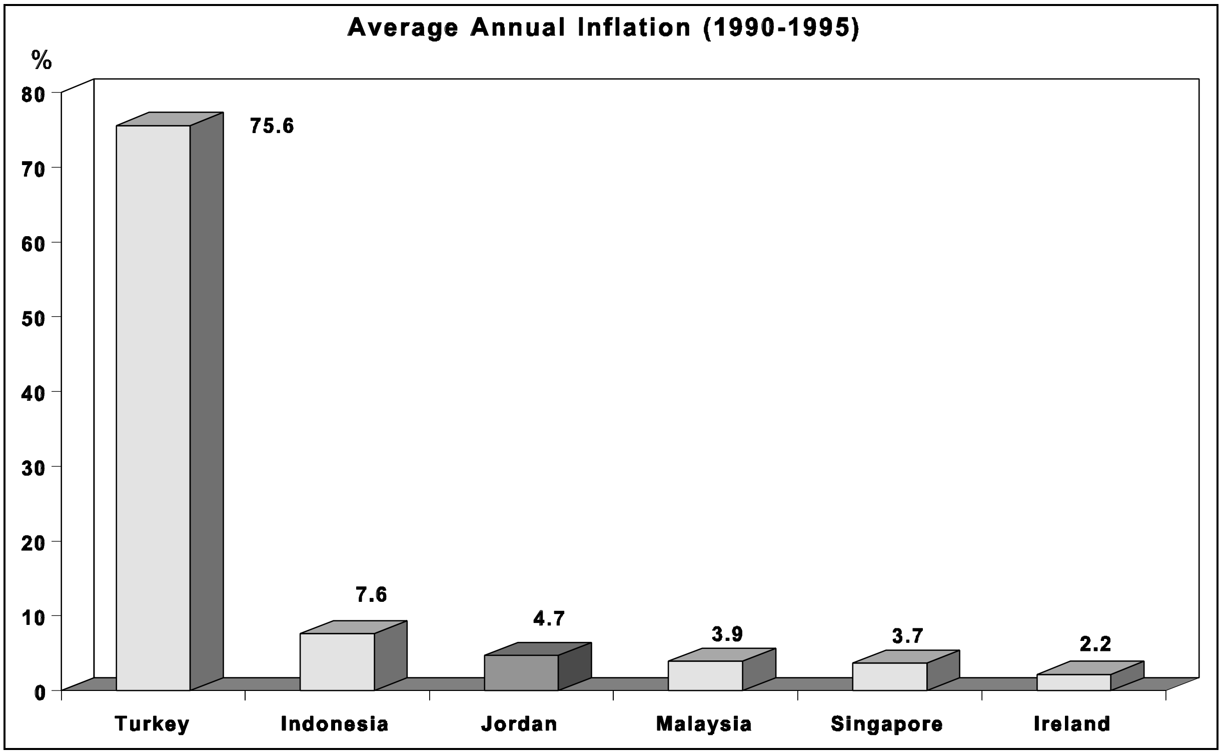
Turkey, both of which had exports of less than 30 percent of GDP.

Foreign Direct Investment as a Percentage of GDP: Limited country data for this variable makes it difficult to obtain a good understanding of how Jordan compares to other nations in the group. The chart comparing foreign direct investment as a percentage of GDP in 1995 shows Jordan with the lowest percentage of 0.0 percent. The three other nations for which SRI obtained comparable data, Malaysia (6.8%), Indonesia (2.2%), and Turkey (0.5%), all

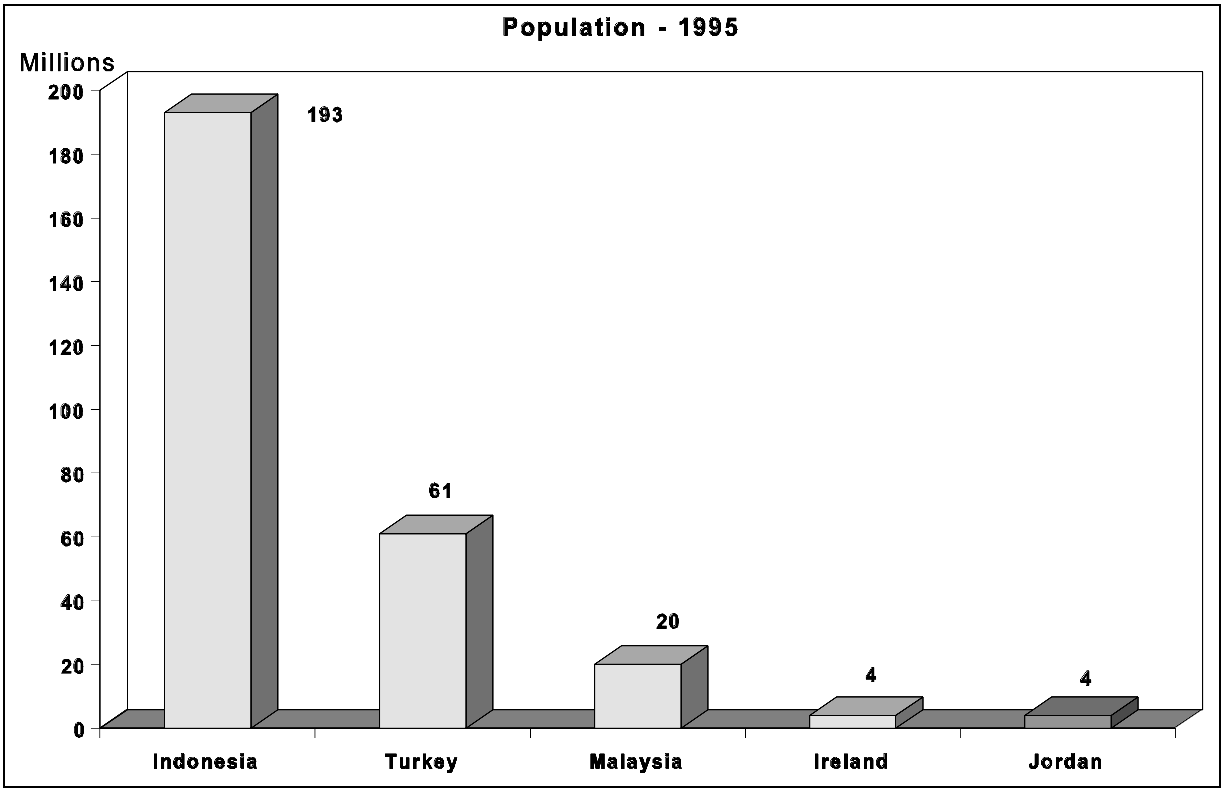


had higher rates of foreign direct investment.

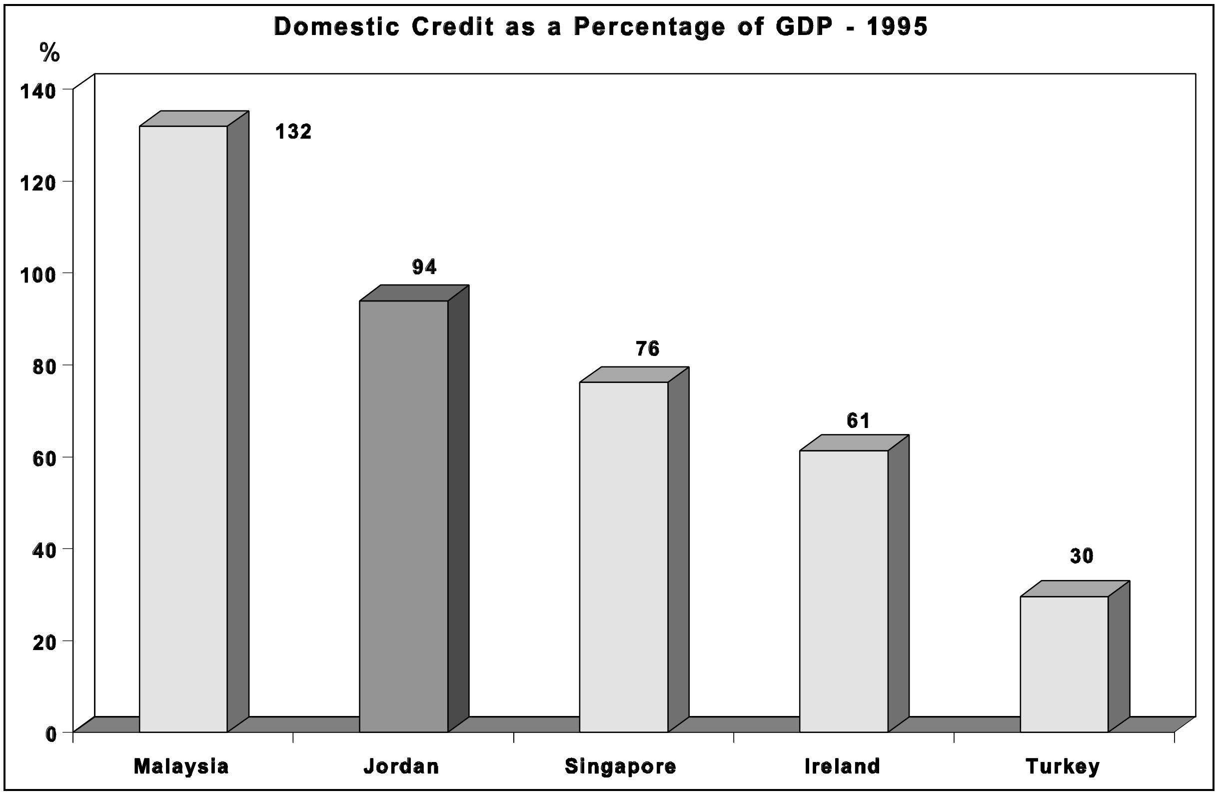
Inflation: Jordan's inflation rate during 1990 to 1995 was roughly equivalent to most of the countries in this group. With the exception of Turkey (75.6%), most of the nations' average annual inflation rates were between 7.6 and 3.7 percent. Jordan had an average inflation rate of 4.7 percent.



Population: Jordan and Ireland, both with populations of about four million people in 1995, are the smallest nations in the group. The other nations all have populations greater than ten million. Indonesia, which has more than 190 million people, is the largest nation in the group.

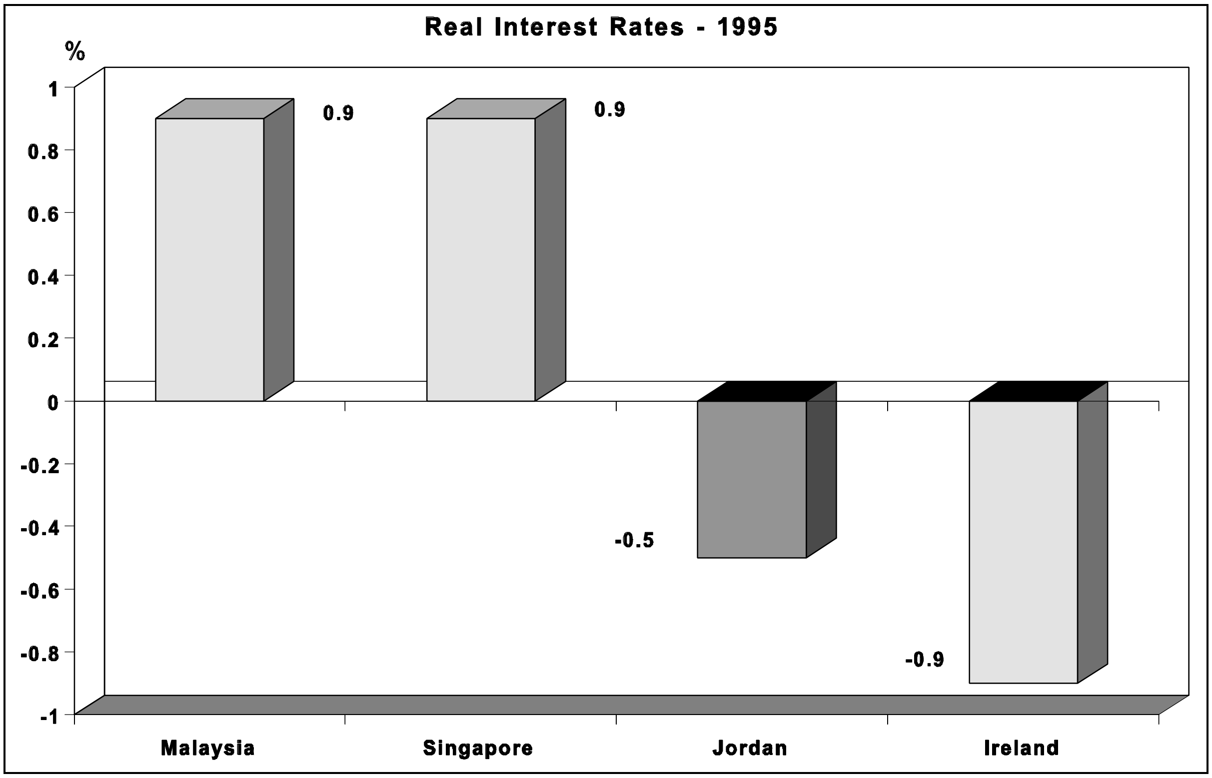


Domestic Credit: Jordan's domestic credit was 94 percent of GDP in 1995. This is greater



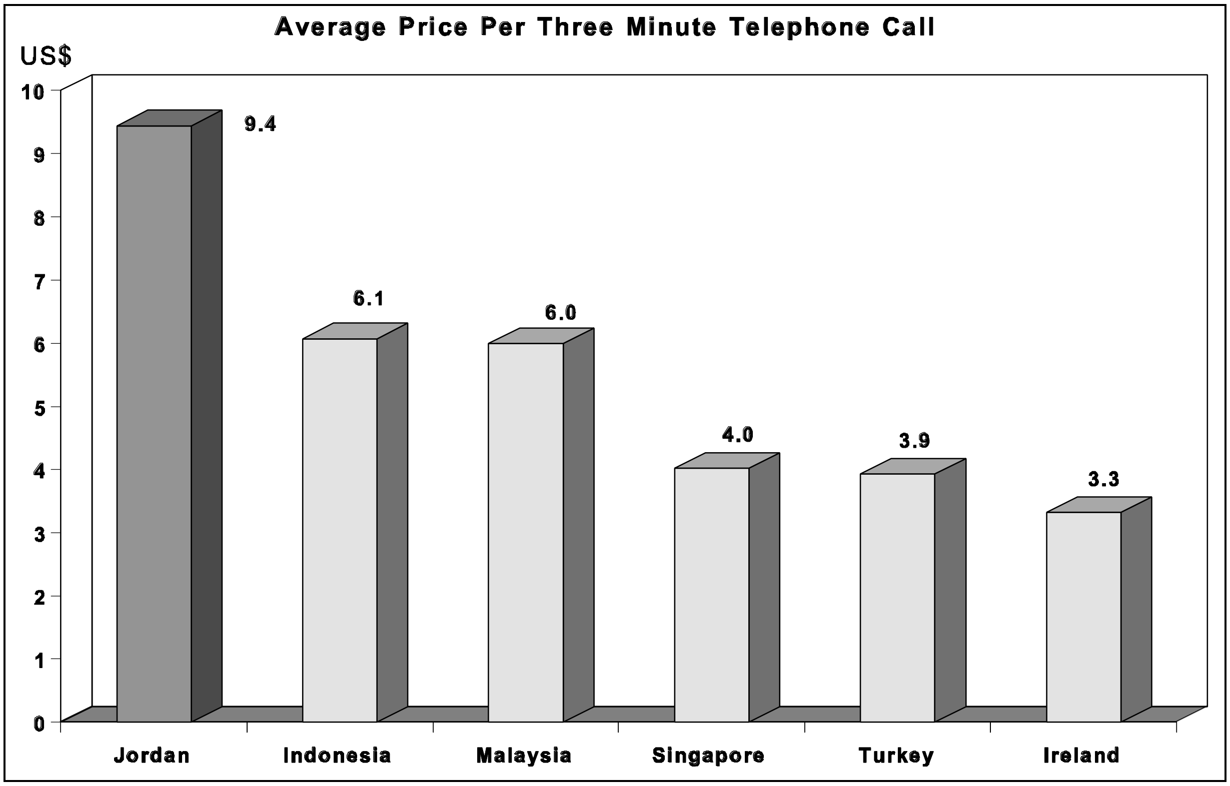
than most of the other nations in the group. Only Malaysia had a higher domestic credit as a percentage of GDP (132%).

Interest Rates: Of the countries for which SRI found reliable real interest rate data for 1995, Malaysia and Singapore had the highest rates. These rates were less than one percent.



Jordan's rate of -0.5 percent was similar to Ireland which also had a negative real interest rate that year (-0.9%).

Telephone Rates: The average price of a three minute phone call in Jordan (US$ 9.4) is the highest in this group. In Indonesia the same call would cost US$ 6.1. In Ireland the call would only cost US$ 3.3.

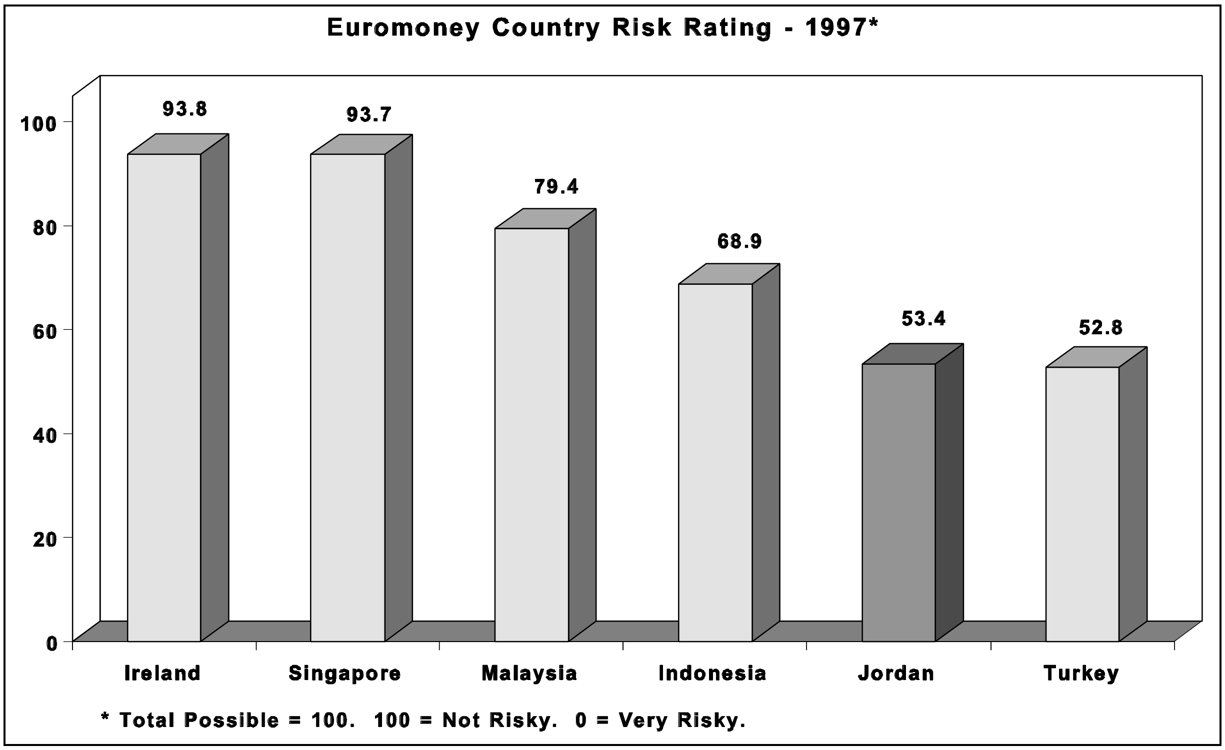


Bond Ratings: Jordan has the lowest bond rating of B-. Singapore and Ireland have the highest. Their rates are AAA and AA respectively. Turkey (B+) has the second lowest rating.

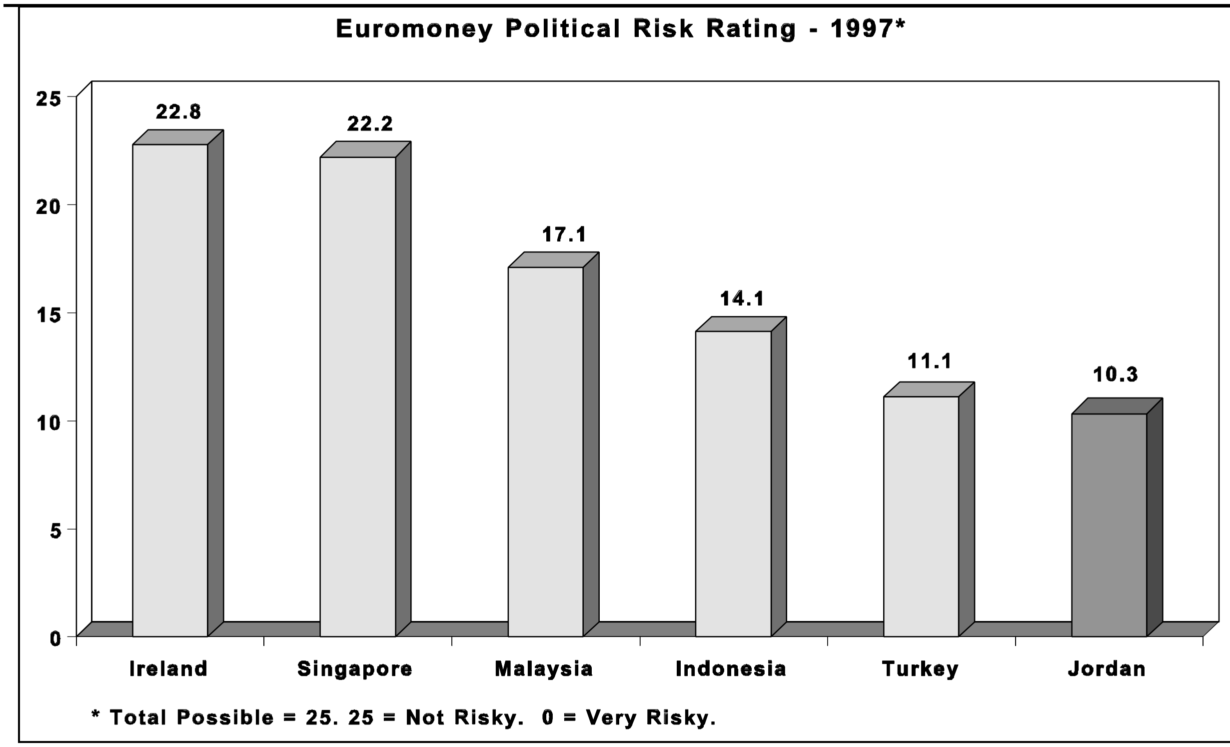
LONG TERM SOVEREIGN BOND RATING 1996

Country	Long Term Bond Rating
Singapore	AAA
Ireland	AA
Malaysia	A+
Indonesia	BBB
Turkey	B+
Jordan	B-

Country and Political Risk: Euromoney's 1997 rankings of countries by overall risk and political risk place Jordan behind most of the other countries in the group. Jordan's score for country risk is only 53.4 out of a possible 100 points. Turkey (52.8) has a slightly lower score. Ireland and Singapore both scored above 93. For political risk, Jordan ranks slightly behind Turkey. Its score of 10.3 out of a possible 25 points places it after all of the other



nations in the group.


Euromoney Political Risk Rating - 1997*
25
20
15
10
5
0
22.8
22.2
17.1
14.1
11.1
10.3
Ireland
Singapore
Malaysia
Indonesia
Turkey
Jordan
* Total Possible = 25. 25 = Not Risky. 0 = Very Risky.

APPENDIX 1

COMMERCIAL POLICY SCORING SYSTEM

1. *IMPORT POLICIES*

		POLICY VARIABLE	RANGE	SCORE
A.	**Mean Tariff:**	(TWTMEAN)	$0 \leq \% \leq 15$	4
			$15 < \% \leq 25$	3
			$25 < \% \leq 30$	2
			$30 < \% \leq 40$	1
			$40 < \%$	0

		POLICY VARIABLE	RANGE	SCORE
B.	**Tariff Variance:**	(TWTMAX)	$0 \leq \% \leq 5$	2
		(TWTMIN)	$5 < \% \leq 10$	1
			$10 < \%$	0

		POLICY VARIABLE	RANGE	SCORE
C.	**Non-tariff Barriers:**	(ALLNTBS)	$0 \leq \% \leq 15$	4
			$15 < \% \leq 25$	3
			$25 < \% \leq 35$	2
			$35 < \% \leq 50$	1
			$50 < \%$	0

Total Score	Raw Score	Grade
(9 - 10)	4	A
(7 - 8)	3	B
(5 - 6)	2	C
(3 - 4)	1	D
(0 - 2)	0	E

Weight for this category: 4

2. Export Policies

		POLICY VARIABLE	RANGE	SCORE
A.	**Export Taxes:**	(XTAXES)	No	1
			Yes	0

		POLICY VARIABLE	RANGE	SCORE
B.	**Export Restrictions:**	(XRESTR)	No	3
			Minimal	2
			Selective	1
			Extensive	0

		POLICY VARIABLE	RANGE	SCORE
C.	**Export Income Tax Exemption:**	(XYTAXX)	Yes	1
			No	0

		POLICY VARIABLE	RANGE	SCORE
D.	**Duty free imports:**	(DUTYFREEM)	Yes	1
			No	0

Total Score	**Raw Score**	**Grade**
(5 - 6)	4	A
(3 - 4)	3	B
(2)	2	C
(1)	1	D
(0)	0	E

Weight for this category: 2

3. Tax Policies

		POLICY VARIABLE	RANGE	SCORE
A.	**Minimum Corporate Income Tax Rates:**	(CORPTAXL)	$0 \leq \% \leq 20$	3
			$20 < \% \leq 30$	2
			$30 < \% \leq 40$	1
			$40 < \%$	0

		POLICY VARIABLE	RANGE	SCORE
B.	**Top Corporate Income Tax Rates:**	(CORPTAXH)	$0 \leq \% \leq 20$	3
			$20 < \% \leq 35$	2
			$35 < \% \leq 45$	1
			$45 < \%$	0

		POLICY VARIABLE	RANGE	SCORE
C.	**Minimum Personal Income Tax Rates:**	(PYTAXL)	$0 \leq \% \leq 10$	3
			$10 < \% \leq 20$	2
			$20 < \% \leq 30$	1
			$30 < \%$	0

		POLICY VARIABLE	RANGE	SCORE
D.	**Top Personal Income Tax Rates:**	(PYTAXH)	$0 \leq \% \leq 35$	3
			$35 < \% \leq 45$	2
			$45 < \% \leq 50$	1
			$50 < \%$	0

		POLICY VARIABLE	RANGE	SCORE
E.	**Sales Tax + VAT Rates**	(SALESTAX + VAT)	0 %	3
			$0 < \% \leq 10$	2
			$10 < \% \leq 15$	1
			$15 < \%$	0

Total Score	Raw Score	Grade
(13 - 15)	4	A
(11 - 12)	3	B
(8 - 10)	2	C
(5 - 7)	1	D
(0 - 4)	0	E

Weight for this category: 4

4. *Domestic Investment Incentives*

		POLICY VARIABLE	RANGE	SCORE
A.	**Income Tax Holidays:**	(YTAXHOL)	Yes	1
			No	0

		POLICY VARIABLE	RANGE	SCORE
B.	**Duty Exemptions:**	(DUTYEXEMP)	Yes	1
			No	0

		POLICY VARIABLE	RANGE	SCORE
C.	**Other Incentives:**	(ACCDEP, IALLOW,	Two or more	2
	Accelerated Depreciation,	RDINCENT)	One	1
	Investment Allowance,		None	0
	and R&D Incentives:			

Total Score	Raw Score	Grade
4	4	A
3	3	B
2	2	C
1	1	D
0	0	E

Weight for this category: **2**

5. Foreign Investment Restrictions

		POLICY VARIABLE	RANGE	SCORE
A.	**FDI Restriction:**	(FDIRESTR + EQURESTR)	Standard	2
			Moderate	1
			Restrictive	0

		POLICY VARIABLE	RANGE	SCORE
B.	**Expatriate Employment**	(EXPATRTR)	Standard	2
			Moderate	1
			Restrictive	0

		POLICY VARIABLE	RANGE	SCORE
C.	**Differential Treatment:**	(DIFFTREAT)	No	1
			Yes	0

		POLICY VARIABLE	RANGE	SCORE
D.	**Dispute Settlement:**	(DISPTRMT)	ICSID	2
			ICSIDNR	1
			-	0

Total Score	Raw Score	Grade
(6 - 7)	4	A
(5)	3	B
(3 - 4)	2	C
(1 - 2)	1	D
(0)	0	E

Weight for this category: 2

6. Business Start-up Procedures

		POLICY VARIABLE	RANGE	SCORE
A.	**Business licensing, registration and approvals:**	(LICENSING, APPROVALS)	Efficient	4
			Relative Problems	2
			Onerous	0

Weight for this category: 2

7. *Pricing and Interest Policies*

	POLICY VARIABLE	RANGE	SCORE
A. Price Control:	(PRICECONT)	None	2
		Selective	1
		Extensive	0

	POLICY VARIABLE	RANGE	SCORE
B. Price System:	(PRICESYST)	Market	2
		Mixed	1
		Administered	0

	POLICY VARIABLE	RANGE	SCORE
C. Interest Control:	(INTCONTR)	No	1
		Yes	0

	POLICY VARIABLE	RANGE	SCORE
D. Credit Allocation:	(CREDITALL)	Market	2
		Mixed	1
		Administered	0

Total Score	Raw Score	Grade
(7)	4	A
(5 - 6)	3	B
(3 - 4)	2	C
(1 - 2)	1	D
(0)	0	E

Weight for this category: 3

8. Foreign Exchange Policies

		POLICY VARIABLE	RANGE	SCORE
A.	**Exchange rate System:**	(FXSYST) Free Float		3
			EMS	2
			Pegged to Basket of Indicators	2
			Pegged to Basket of Currencies	2
			Managed Float	1
			Pegged to US$, FF, or SDR	0

		POLICY VARIABLE	RANGE	SCORE
B.	**Foreign Exchange level:**	(FXLEVEL)	Market	1
			Overvalued	0

		POLICY VARIABLE	RANGE	SCORE
C.	**Foreign Exchange Restriction:**	(FXRESTR)	None	3
			Minimal	2
			Moderate	1
			Restrictive/Prohibitive	0

		POLICY VARIABLE	RANGE	SCORE
D.	**Profit Repatriation Restriction:**	(PROFRESTR)	None and Minimal	2
			Moderate	1
			Restrictive/Prohibitive	0

		POLICY VARIABLE	RANGE	SCORE
E.	**Capital Repatriation Restriction:**	(CAPRESTR)	None and Minimal	2
			Moderate	1
			Restrictive/Prohibitive	0

Total Score	**Raw Score**	**Grade**
(10 - 11)	4	A
(8 - 9)	3	B
(6 - 7)	2	C
(4 - 5)	1	D
(0 - 3))	0	E

Weight for this category: 4

9. Labor Policies

		POLICY VARIABLE	RANGE	SCORE
A.	**Hiring/Firing Flexibility:**	(HIFIFLEX)	Flexible	2
			Moderate	1
			Inflexible	0

		POLICY VARIABLE	RANGE	SCORE
B.	**Minimum Wage:**	(MINWAGE)	No	1
			Yes	0

		POLICY VARIABLE	RANGE	SCORE
C.	**Wage Controls:**	(WAGECONTR)	No	1
			Yes	0

Total Score	Raw Score	Grade
4	4	A
3	3	B
2	2	C
1	1	D
0	0	E

Weight for this category: 2

10. Suggested Weighting for Policy Categories

	Score Range	Weight Weighted	Maximum Score
Import Policies	0 - 4	4	16
Export Policies	0 - 4	2	8
Tax Policies	0 - 4	4	16
Investment Incentives	0 - 4	2	8
FDI Restrictions	0 - 4	2	8
Business Start-Up Procedures	0 - 4	2	8
Pricing/Interest Policies	0 - 4	3	12
Foreign Exchange Policies	0 - 4	4	16
Labor	0 - 4	2	8
			100

Score Sheet

Country:
Country Score:

	Score	Raw Score	Weighted Score
Import Policies:			
Mean Tariff:			
Tariff Variance:			
Non-tariff Barr:			
Total:			**4X=**

	Score	Raw Score	Weighted Score
Export Policies:			
Export Taxes:			
Export Restrict:			
Exp. Income Exempt:			
Duty Free Imports:			
Total:			**2X=**

	Score	Raw Score	Weighted Score
Tax Policies:			
Min. Corp Rates:			
Top Corp Rates:			
Min. Personal Rates:			
Top Personal rates:			
Sales Tax + VAT:			
Total:			**4X=**

	Score	Raw Score	Weighted Score
Investment Incentives:			
Income Tax Hol:			
Duty Exemptions:			
Other Incentives:			
Total:			**2X=**

	Score	Raw Score	Weighted Score
FDI Restrictions:			
FDI Restriction:			
Expat Restrict:			
Diff. Treatment:			
Dispute Settlement:			
Total:			**2X=**

	Score	Raw Score	Weighted Score
Business Start-Up:			
Total:			**2X=**

	Score	Raw Score	Weighted Score
Pricing/Interest Policy:			
Price Control:			
Price System:			
Interest Control:			
Credit Allocation:			
Total:			**3X=**

	Score	Raw Score	Weighted Score
Foreign Exchange Policy:			
FX System:			
FX Level:			
FX Restriction:			
Profit Repat Restr:			
Capital Repat Restr:			
Total:			**4X=**

	Score	Raw Score	Weighted Score
Labor Policy:			
Hiring/Firing Flex:			
Min Wage:			
Wage Controls:			
Total:			**2X=**